



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 5, 2012

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Auditor of State David A. Vaudt today released a reaudit report on the Iowa Association of School Boards, (IASB) in Des Moines, Iowa for the period July 1, 2008 through June 30, 2009. The reaudit also covered certain items to determine practices and review transactions applicable to the years ended June 30, 2008 and June 30, 2010. The reaudit was performed at the request of former IASB Board President Jack Hill, on behalf of the IASB Board of Directors, pursuant to Chapter 11.6(4)(a)(2) of Code of Iowa.

The reaudit report addresses Board governance in regard to Board oversight and internal control. The reaudit report also addresses concerns regarding compliance with deposits and investments, Federal grants, loans and transfers, and certain IRS reporting and related compensation matters. Vaudt also included recommendations in regard to certain IASB programs. IASB responses to the reaudit findings and recommendations are included in the reaudit report.

A copy of the reaudit report is available for review in the IASB Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/0933-0034-T00Z.pdf>.

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IOWA ASSOCIATION OF SCHOOL BOARDS
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2008 THROUGH JUNE 30, 2009

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Iowa Association of School Boards

Officials

June 30, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees		
Jack Hill	President	Jan 2010
Russ Wiesley	President-Elect	Jan 2010
Margaret Borgen	Past President	Jan 2010
Richard Vande Kieft	Treasurer	Jan 2010
Marcia DeZonia	Director	Jan 2010
Scott Hansen	Director	Jan 2010
Craig Lohmann	Director	Jan 2010
Sarah Long	Director	Jan 2010
Katie Temple	Director	Jan 2011
Paul Brooks	Director	Jan 2011
Amy Jurrens	Director	Jan 2011
Lee Ann Grimley	Director	Jan 2011
Jim Green	Director	Jan 2012
Mike Sexton	Director	Jan 2012
Susan Shaw	Director	Jan 2012
Tom Wieseler	Director	Jan 2012
Roy Lamansky	Director	Indefinite

Officials

Ron Rice	Administrator/ Chief Executive Officer	Left July 30, 2009
Jon Muller	Assistant Administrator/ Chief Financial Officer	Left June 30, 2009

Iowa Association of School Boards



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Auditor of State's Report on Reaudit

To the Board of Directors
of the Iowa Association of School Boards:

We received a request to perform a reaudit of the Iowa Association of School Boards (IASB) at the request of former IASB Board President Jack Hill on behalf of the IASB Board of Directors under Chapter 11.6(4)(a)(2) of the Code of Iowa. The reaudit request is included as **Exhibit 1**. As a result, we performed a limited review of the fiscal year 2009 audit report and selected workpapers prepared by the IASB's independent auditors to determine whether the CPA firm may have addressed any or all of the specific issues identified in the request for reaudit during the annual audit of IASB. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues, including those identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of IASB for the period July 1, 2008 through June 30, 2009. We also inquired and performed procedures for certain items applicable to the years ended June 30, 2008 and June 30, 2010, including the findings and recommendations included in IASB's fiscal year 2010 independent audit report available at <http://auditor.iowa.gov/reports/1033-0034-C000.pdf>.

The procedures we performed are summarized as follows:

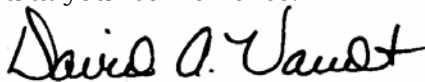
1. We reviewed reports prepared by LWBJ Capital Advisors, LLC (LWBJ) and performed a limited review of selected workpapers and documents obtained by LWBJ.
2. We inquired about the status of pending investigations by other external departments and agencies.
3. We inquired about the status of the 2009 IRS Form 990 and whether the 2008 IRS Form 990 was amended.
4. We interviewed selected officials and employees of IASB.
5. We obtained and reviewed selected IASB Board minutes to determine whether the Board approved selected employment and/or other selected contractual agreements.
6. We obtained and reviewed copies of selected employment agreements, related compensation and proper reporting of compensation for selected current and former employees of IASB.
7. We obtained, reviewed and tested selected transfers/loans between IASB and its related organizations, if any, and transfers/loans between IASB and Local Government Services, Inc. (LGS).
8. We obtained copies of minutes or other documents regarding Board approval of transfers/loans between IASB and its related organizations, including LGS, including the terms, conditions and status of current outstanding transfers and loans, if any.

9. We considered various current and prior investments made by IASB and/or its related organizations for propriety with the deposit and investment provisions of Chapter 12B of the Code of Iowa.
10. We inquired about the status of the Skills Iowa Grant findings and recommendations included in the fiscal year 2009 and 2010 independent auditor's reports for IASB, including repayment of Federal awards, if any.
11. We inquired about and reviewed IASB's methodology and basis for its valuation of the IGROWTH program.
12. We inquired about, reviewed the basis for and requested reconciliations to determine the status of PaySchools Program financial performance and profitability, including administrative fees retained by IASB.

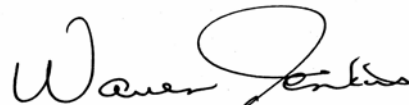
Based on the performance of the procedures described above, we identified findings and instances of non-compliance and have developed various recommendations for IASB. Our recommendations pertaining to our findings and instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of non-compliance were not noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures, or had we performed an audit of IASB, additional matters might have come to our attention that would have been reported to you. A copy of this reaudit report has been filed with the United States Department of Education and the Iowa Department of Education for their review and information. A copy of this reaudit report has also been filed with the Polk County Attorney, the Legislative Government Oversight Committee and the Internal Revenue Service.

We would like to acknowledge the assistance extended to us by personnel of IASB. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 16, 2011

Background and Detailed Findings

Background

The Iowa Association of School Boards (IASB) is a nonprofit organization formed under the Revised Iowa Nonprofit Corporation Act, Chapter 504 of the Code of Iowa. According to IASB's Articles of Incorporation, IASB exists for the purpose of "operating to develop, strengthen, and correlate the work of the school boards of the public schools in their efforts to promote the educational interests of the State of Iowa and to provide such services as will enhance these purposes."

A brief description of IASB's related organizations are listed below. In addition, IASB and its related organizations offer a number of programs to school districts. A listing and more detailed description of the programs and related organizations are summarized in a document presented to the Legislative Government Oversight Committee on April 29, 2010 and included as **Exhibit 2**.

Local Government Services, Inc. (LGS) - a for-profit, wholly owned subsidiary of IASB created under Chapter 490 of the Code of Iowa and operating to support IASB's core non-profit activity and services.

Iowa Schools Joint Investment Trust (ISJIT) - created pursuant to the provisions of Chapter 28E of the Code of Iowa to allow Iowa schools to invest public funds pursuant to a joint investment agreement.

Iowa School Boards Foundation (ISBF) - formed under the Revised Iowa Nonprofit Corporation Act, Chapter 504 of the Code of Iowa, to serve and provide educational support to Iowa school boards.

Iowa Joint Utility Management Program (IJUMP) - formed under the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, in 2001 and formally dissolved as of June 30, 2009 was established to provide energy and energy-related services to Iowa school districts, other public agencies and nonprofit organizations.

Iowa Schools Cash Anticipation Program (ISCAP) - created pursuant to the provisions of Chapter 28E of the Code of Iowa to provide a General Fund cash flow and funding mechanism for Iowa school districts.

Iowa Schools Employee Benefit Association (ISEBA) - created pursuant to the provisions of Chapter 28E of the Code of Iowa to provide insurance to Iowa school employees.

Starting in the spring of 2009 and continuing into the fall and winter of 2009, IASB experienced significant changes in management positions resulting in significant turmoil within the organization. In a letter dated October 19, 2009, the then President of IASB requested the Auditor of State to reaudit IASB for fiscal year 2009 for "all entities (related organizations) of the Iowa Association of School Boards which includes Local Government Services (LGS)..." In addition, the reaudit request was to "encompass an assessment of issues related to a significant and rapid decline in association resources over the last five years, as well as an evaluation of internal operations and procedures."

Subsequent to the request for reaudit, IASB again experienced significant changes in management positions in early 2010 resulting from several questionable events, activities and transactions. As a result, several investigations ensued and IASB called upon other organizations for assistance.

Consequently, the Auditor of State delayed the reaudit until IASB had time to reorganize and respond to the other investigations. The delay was also, in part, to allow IASB's independent auditors ample time to assess the results of the other investigations and complete the annual audits of IASB.

The fiscal year 2009 audit of IASB was not completed and released by IASB's independent auditors until August 2010 due, in part, to additional audit work performed by the independent auditors to address the questionable events, activities and transactions. Similar issues were addressed during the fiscal year 2010 audit and are reported in the audit report of IASB available on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1033-0034-C000.pdf>.

A reaudit conducted in accordance with Chapter 11.6(4) of the Code of Iowa is not intended to duplicate effort or provide a comprehensive "assessment of issues related to a significant and rapid decline in association resources over the last five years, as well as an evaluation of internal operations and procedures." In addition, since IASB's independent auditors are responsible for review and follow-up of prior year findings in accordance with Government Auditing Standards, this reaudit is not intended to provide an exhaustive or comprehensive review and determination of the status of IASB's independent auditor's fiscal year 2010 audit and related findings. Instead, the reaudit procedures and related findings and recommendations address the current status of selected matters and/or address matters not otherwise addressed by other investigations or IASB's independent auditors.

Except as noted, the reaudit and following detailed findings pertain primarily to the transactions, events and circumstances, which occurred under the IASB management and staff during fiscal year 2009 and/or prior periods.

Detailed Findings

- (A) Governance: Board Oversight and Internal Control - Governance typically focuses primarily on the fiduciary responsibility a governing body has in regard to exercising authority over its funds and the public trust the organization owes those it serves that the organization will efficiently and effectively achieve its mission. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

Internal control is defined as a process, implemented by an entity's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting and
- Compliance with applicable laws and regulations.

Based on our observations and procedures performed, including the following findings and those of IASB's independent auditors, the Boards of IASB, its subsidiary LGS and its related organizations failed to exercise proper fiduciary oversight and implement adequate internal control systems.

According to the job description, IASB's Executive Director had authority to hire and/or terminate employees without Board approval. There was not always evidence of Board approval in the appropriate Board minutes for wages and/or other compensation and employment agreements or for transfers and loans between IASB, its wholly owned subsidiary and related organizations.

The lack of appropriate Board fiduciary oversight and failure to ensure implementation of adequate internal controls permitted employees to exercise too much power over the operation of IASB, its subsidiary LGS and its related organizations, including the use of IASB resources, in some cases to the detriment of IASB. As noted in the following findings, the Board frequently relied on management representations without adequate supporting documentation or information.

Recommendation – Board fiduciary oversight and proper internal control is essential and should be an ongoing effort by all members of any governing body.

In the future, the Boards of IASB, its subsidiary LGS and its related organizations should exercise prudent person due care. Boards should require and review pertinent information and documentation prior to making decisions affecting the organization. The Board should evaluate and establish procedures pertaining to authorization and approval of the terms and conditions of employment, including salaries and benefits for employees during the term of their employment. In addition, the Board should evaluate and establish procedures pertaining to authorization and approval for hiring and the termination of employees.

Appropriate operating and internal control policies should be adopted by the Boards of IASB, its subsidiary LGS and its related organizations. IASB, its subsidiary LGS and its related organizations should implement procedures to ensure compliance with established Board policies and the Board should monitor compliance.

Response – Since the spring of 2010, the association has implemented a number of policy and governance practices. The Board established three committees: Audit; Compensation and Benefits; and Governance/By-Laws. These three committees meet regularly to review, monitor and verify information relevant to their respective areas of responsibility. Each committee annually reviews existing operating and internal control policies to determine what modifications or additions should be made.

Conclusion – Response accepted.

- (B) Deposits and Investments – Prior CFOs of IASB, its wholly owned subsidiary LGS and its related organizations invested in or had transactions involving hedging, derivatives and futures. We did not confirm whether the applicable governing Boards authorized or approved all investments and transactions. The following investment transactions have resulted in losses, as subsequently described to IASB, its wholly owned subsidiary LGS and/or its related organizations. In addition, Note 4 in the fiscal year 2010 audited financial statements regarding "Concentrations" states, in part, "The Association routinely has cash balances at financial institutions in excess of FDIC insured limits. The Association has not experienced any losses as a result of this."

IASB operated the Iowa Joint Utility Management Program (IJUMP) prior to its dissolution effective June 30, 2009 and, within that program, another component known as the IJUMP Fleet Service program. Prior to IASB's dissolution of IJUMP, the IJUMP Fleet Service program was reviewed by the Iowa Attorney General at the request of the Iowa Department of Education and the Iowa Auditor of State. The Iowa Attorney General issued a letter of advice dated October 6, 2004 responding to the propriety of using the school district management levy to fund all or part of a school district's participation in the IJUMP Fleet Service program. In addition, the letter of advice included the following

caution concerning investments and Chapter 12B of the Code of Iowa. The letter of advice states, in part:

"Finally, I must note that IJUMP's proposed use of funds received from school districts through the Fleet Service program risk management fee to purchase financial instruments on the Chicago Mercantile Exchange raises additional concerns. To the extent that IJUMP is holding and investing school district management fees on behalf of schools, consideration must be given to the limitation upon investment of public funds that are contained in Iowa Code chapter 12B. The provisions of this chapter include a variety of limitations upon the investments of public funds by political subdivision(s), including explicit prohibitions upon "the trading of securities in which any public funds are invested for the purpose of speculation and the realization of short-term trading profit" and investments in "futures or options contracts." Iowa code 12B.10(3) (last paragraph; 12B.10(4) (paragraph following (g)(2003). This office has frequently observed that, "public funds do not necessarily lose their public character merely because a private entity happens to possess them." 2000 Op. Att'yGen. ___ (#00-8-2(L)), (2000 WL 1576488); citing 1994 Op. Att'yGen. 71 and 1998 Att'yGen. ___ (#98-1-3)."

A document titled "Various Issues Related to the Iowa Joint Utilities Management Program (IJUMP) Notes" by Jen Albers (former IASB Accounting Manager) - April 4, 2010, states, in part, "IJUMP's gain or losses on derivatives had absolutely no affect (effect) on IJUMP's income or loss for the fiscal year, but the gain or loss is required to be booked as a gain or loss on the financials and disclosed in a note to the audited financial reports. These derivatives were not investments. They were risk management tools."

According to Note 13 of IASB's fiscal year 2008 audited consolidated financial statements, "IJUMP entered into commodity derivatives to manage its exposure to natural gas price fluctuations caused by commodity-price volatility. As of June 30, 2008, the derivative instruments that had been settled resulted in a net realized loss of \$1,003,275 in the statement of activities. At June 30, 2008, IJUMP did not have any outstanding commitments to purchase commodity derivatives."

Note 10 of IASB's fiscal year 2010 audited consolidated financial statements pertaining to "On-Balance Sheet Derivative Instruments and Hedging Activities" states, in part:

"LGS has a stand-alone derivative financial instrument in the form of an interest rate swap agreement, which derives its value from underlying interest rates. This transaction involves both credit and market risk. The notional amount is an amount on which calculations, payments, and the value of the derivative is based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amount to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Association's balance sheet as a derivative liability."

As a result, IASB had an unrealized loss relating to interest rate swap of \$258,584, as of June 30, 2010.

In spite of the Iowa Attorney General's 2004 letter of advice and caution regarding investments, IASB participated in speculative investments and transactions. These investments and transactions not only put public funds at risk of loss, but also resulted in losses as previously noted. IASB's independent auditors reported on and disclosed the investment losses in IASB's financial statements. According to current IASB staff,

written guidance from legal counsel was not located in regard to these statutory requirements.

Consistent with the Iowa Attorney General's 2004 letter of advice, if any of IASB's funds are subject to Chapter 12B of the Code of Iowa pertaining to investments, it would also appear to be subject to Chapter 12C of the Code of Iowa pertaining to deposits. As such, IASB's deposits in excess of FDIC insured limits are potentially at risk of loss.

Recommendation – IASB should discuss the provisions of Chapter 12B and 12C of the Code of Iowa with its legal counsel and with the Office of Treasurer of State, State of Iowa to determine to what extent these statutes apply to IASB. If these statutes do apply, IASB should liquidate any remaining noncompliant speculative investments as soon as financially feasible and should refrain from entering into speculative investments and transactions in the future.

IASB should implement internal control policies and procedures to ensure public funds are not invested in a speculative instrument. Internal control procedures should be implemented, including periodic monitoring of deposits and investment transactions for compliance with IASB's investment policy and Chapters 12B and 12C of the Code of Iowa, if applicable. IASB should also implement monitoring procedures to ensure compliance with established requirements and Chapters 12B and 12C of the Code of Iowa, if applicable. IASB policies and procedures pertaining to deposits and investments should be reviewed with IASB personnel responsible for deposits, investments and related compliance.

Response – IASB has requested legal counsel to request a formal opinion from the Iowa Attorney General's Office as to the applicability of Iowa Code Chapters 12B and 12C to IASB investments made by the Association. Once that opinion has been issued, management will develop an investment policy consistent with the opinion. In the meantime, the Association has ceased entering into any speculative investments and transactions.

Conclusion – Response accepted.

- (C) Skills Iowa Grant - The fiscal year 2009 and 2010 audited financial statements of IASB included several findings and recommendations pertaining to the Skills Iowa Grant, including repayment of Federal awards. The United States Department of Education (USDE) reviewed the independent auditor's findings and recommendations and responded in a letter to IASB dated August 29, 2011, which is included as **Exhibit 3**. In all matters reviewed by USDE, the independent auditor's findings were sustained and USDE concurred with the independent auditor's recommendations. In addition, in all matters reviewed by USDE, IASB's response and corrective actions to prevent recurrence of the findings were accepted by USDE. As noted in the USDE letter, IASB repaid a duplicate drawdown of \$493,932 on April 14, 2010. In addition, an additional repayment of \$10,444 resulting from questioned costs was made on April 29, 2011.

Recommendation - IASB should implement internal control and monitoring procedures to ensure compliance with established requirements and review and monitor compliance with all state and federal grant requirements in a timely manner and to avoid possible duplicate drawdowns. IASB policies and procedures and grant compliance requirements should be reviewed with IASB personnel responsible for grant compliance.

As noted in the USDE letter, IASB's independent auditors "will perform audit follow-up procedures in subsequent OMB Circular A-133 audits to determine that actions have been taken to correct the finding(s)."

Response – The duplicate draw down error occurred on January 22, 2010 and the error was discovered shortly thereafter. Repayment was made on April 14, 2010. At the present time, all grants including Skills Iowa have ended with only the final reporting and draws to be completed.

Conclusion – Response accepted.

- (D) IASB Loan to LGS and Incompatible Positions - Local Government Services, Inc. (LGS) is a for-profit, wholly owned subsidiary of IASB established in the fall of 2005 to separate the core for profit activity and transactions from non-profit activity and transactions for tax purposes. Since the time LGS was established, IASB has loaned LGS over \$5,000,000 for cash flow purposes, purchase of the current IASB building and various related operating and capital outlay expenditures. IASB's Board was involved in establishing LGS in 2005 and in the purchase of the current IASB building in 2006. According to IASB Board meeting minutes dated July 13-14, 2006, action was taken "to approve the recommendation that IASB finance the build-out project by loaning the money to LGS, Inc. at the current market rate." The amount of the loan approved, if any, was not documented in these minutes and, as noted, loans/transfers were not always approved by the appropriate Boards.

Additional background on LGS and the loans between IASB and LGS, including capital contributions from IASB to LGS, are summarized in a document presented to the Legislative Government Oversight Committee on April 29, 2010, which is included as **Exhibit 4**.

IASB has continued to periodically loan IASB funds to LGS for cash flow and other purposes, a portion of which has been periodically repaid by LGS. According to IASB, the outstanding loan balance due IASB from LGS totaled \$5,861,924 as of December 31, 2010.

Various opinions of the Iowa Attorney General address the doctrine of incompatibility of offices. According to the opinions and the Iowa Supreme Court, the common law principle of incompatibility of offices was identified as:

“The test of incompatibility is whether there is an inconsistency in the functions of the two, as where one is subordinate to the other and subject in some degree to revisory power, or where the duties of the two offices are inherently inconsistent and repugnant.”

Loans were made by former chief financial officers (CFOs Muller and Schick) without Board approval or evidence of terms for repayment, including the period of the loan and interest rate. Former IASB CFO Jon Muller also served as President of LGS until April 2009, Assistant Secretary for ISJIT, Treasurer for ISCAP, Secretary and Treasurer for IJUMP and Treasurer for ISEBA. During his tenure, Mr. Muller authorized loans and other transfers, as evidenced by his initials on supporting documents, between IASB and its subsidiary LGS and other related organizations without Board approval and while holding various offices with LGS and other IASB related organizations.

In addition, certain IASB staff represented consideration has been given to forgiving all or a portion of the IASB loans to LGS. However, the IASB Board has not considered or taken any action concerning forgiving all or a portion of the loans. Certain IASB staff also represented the financial status of LGS indicated LGS would eventually be able to repay the loans. However, the current IASB CFO represented repayment is not feasible and repayment would not be an option. We did not attempt to determine the propriety or effect on IASB's financial condition and legal status should the IASB Board forgive the substantial outstanding loans.

IASB staff represented all other interfund loans and transfers have been repaid.

Recommendation - Future loans, if any, should be authorized and approved by the IASB Board and the terms for repayment, including the period of the loan and interest rate, should be determined and documented as a condition of the loan. Employees and officers should not be allowed to serve in multiple positions which permit the employee or officer to perform incompatible duties, including the ability to execute loans and transfers between IASB and its subsidiary or related organizations.

IASB should review and determine the current status of the outstanding loan balance with LGS and the likelihood and feasibility of repayment and should consult legal counsel before the IASB Board takes action regarding this substantial outstanding loan. If IASB determines repayment is feasible and appropriate, the Board should determine and document the terms for repayment, including the remaining period of the loan and the interest rate.

Response – The employees in question are no longer with IASB. Although it is necessary for employees and officers to sometimes serve in multiple capacities it will no longer be allowed if the multiple positions result in the performance of incompatible duties. In addition, future loans, if any, will only be authorized and approved by the IASB Board. The amount of loan; terms for repayment; period of the loan; and interest rate will be included in the written loan documents submitted to the Board for approval. The current status of the loan balance of LGS has been forwarded to legal counsel for review and recommendation regarding the feasibility of repayment.

Conclusion – Response accepted.

- (E) Transfers - In addition to the loan transactions with LGS, other transfers were made to and from IASB and its related organizations, including ISJIT, ISEBA and IJUMP by former CFOs (Muller and Schick) without Board approval. The purpose of the transfers with the related organizations included payment of fees and expenses, loans and loan repayments.

Certain unauthorized transfers were addressed in IASB's fiscal year 2009 and 2010 audited financial statements. However, transfers without Board authorization or approval appear to have been a long-standing practice of IASB based on our review of transfers for prior periods.

The unauthorized transfers noted in the fiscal year 2009 and 2010 audited financial statements have been or are being repaid. According to IASB's fiscal year 2010 audited financial statements, \$184,211 of the \$500,000 unauthorized transfer from ISEBA to IASB and LGS remained unpaid and was owed to ISEBA as of June 1, 2010. This \$500,000 was initially transferred on December 1, 2009 without ISEBA Board approval. In lieu of correcting the unauthorized transfer immediately and in total, IASB subsequently transferred back only \$300,000 of the \$500,000 with a documented date of December 1, 2009 and is repaying the remaining balance by reducing the monthly LGS fees and quarterly IASB sponsorship fees owed to LGS and IASB from ISEBA.

Although, IASB staff provided a copy of a resolution and a copy of ISEBA Board minutes dated April 15, 2010, we were unable to determine whether the resolution was the final resolution and which Boards, if any, approved the resolution. Based on our review and inquiry and due to lack of documentation, the appropriate Boards did not appear to have authorized or approved this method of repayment and according to IASB staff, the balance of this transfer was made without developing a payment plan.

Pursuant to an agreement approved by the IASB Board, IASB provided administrative services, which included cash management services, to and received reimbursement from the IJUMP program. In return for the cash management services, IJUMP paid an annual fee to IASB. The annual fee was determined based on the amount borrowed by IJUMP at a rate equal to the pooled investment rate earned by IASB accounts plus one-quarter of one percent to reflect the increased risk IJUMP brought to the investment pool.

Although all loans were repaid prior to the sale of IJUMP, it appears IASB exposed IASB assets to potential loss in providing the cash management services for IJUMP. We requested and received agreements between IASB and IJUMP. However, since the agreements were not signed, we were unable to determine the propriety of the agreements or whether final valid agreements existed.

A memo dated September 7, 2001 from former CFO Jon Muller to the IASB Board, states, in part:

"IASB will need to pay IJUMP bills on a timely basis, but will receive reimbursement from school districts on a schedule that lags the liabilities 7 to 30 days. Assuming an unusually cold winter, and unusually high prices, IASB would need no more than \$3.5 million for no more than 2 months to make timely payments on behalf of IJUMP, Inc. A typical winter with typical prices might require something closer to \$1.0 million for as little as one month. The IASB board needs to approve IASB's use of Safety Group reserves, for which IASB will be reimbursed at a market rate at least as high as the current level."

The memo also discusses efforts to improve the cash flow of the IJUMP program. It appears safety group program funds were used as seed (start-up and reserve) money for IJUMP necessary to cover the time lag between payment of liabilities and participating school district reimbursements. Loans frequently exceeded two months and, in one instance, safety group program funds totaling over \$2.8 million were held approximately six months before partial repayment was made.

Except as otherwise noted, IASB staff represented all other interfund loans and transfers have been repaid.

Recommendation - Transfers should be authorized and approved by the appropriate Board(s). As previously noted, for transfers representing loans, the terms for repayment, including the period of the loan and the interest rate, should be determined and documented as a condition of the loan.

IASB should have made a corrective transfer in the amount of the unauthorized transfer at the time the unauthorized transfer was discovered. The balance of the remaining transfer is, in substance, a loan from ISEBA, which should have been authorized and approved by the ISEBA Board. The appropriate Boards should review and determine the proper disposition of this outstanding loan. Once the appropriate Boards determine the proper method of repayment, the Boards should determine and document the terms for repayment, including the remaining period of the loan and the interest rate.

Response - Transfers will be authorized and approved by the appropriate Board(s). In addition, future loans, if any, will only be authorized and approved by the Boards of the lending and borrowing entity. The amount of loan; terms for repayment; period of the loan; and interest rate will be included in the written loan documents submitted to the Board for approval. At this time, all funds have been repaid to ISEBA and IASB.

Conclusion - Response accepted.

- (F) Retention of IASB Property by Former Employees - Former IASB employees Ron Rice, Jon Muller and Lawrence (Larry) Sigel were allowed to keep computer and/or office equipment (property) upon their departure from IASB.

The May 14, 2009 IASB Board minutes included item #5 "Approve Agreement Between Iowa Association of School Boards and ISFIS (Larry Sigel)." Those minutes stated, in part, "Ron shared that Larry Sigel will be leaving IASB effective June 30, 2009 and starting his own school finance consulting firm, Iowa School Finance Information Service (ISFIS). Ron said the staff recommends contracting with his new firm to provide various financial services to our member(s). There was discussion regarding who will pay his fees (IASB, ISCAP, ISJIT) and it was determined the fee would be paid by IASB." The Board unanimously approved the agreement with IASB funding the entire fee. Based on our review of the agreement between ISFIS and IASB, ISFIS (Larry Sigel) would have provided services similar to those Mr. Sigel provided when he was employed by IASB.

The agreement with ISFIS, effective June 1, 2009, provided for an annual fee of \$100,000 to be paid by IASB to ISFIS and provided limited, required computer support to ISFIS. We did not determine why the minutes stated June 30, 2009 when, according to IASB staff, Mr. Sigel actually departed on May 31, 2009. Pursuant to the agreement, the first installment of \$62,500 was due and paid by IASB June 1, 2009 before any services were provided by ISFIS. In addition, IASB agreed to transfer ownership of two laptop computers, including preloaded hardware and software, along with all required computer accessories and peripherals in possession of ISFIS (Larry Sigel) to ISFIS as of June 1, 2009.

According to information provided by IASB staff, IASB sent letters dated August 24, 2010 from Veronica Stalker, Interim Executive Director, to the former employees informing them the estimated fair market value for the IASB property they were allowed to retain.

- The letter to former Executive Director Ron Rice included an estimated fair market value of \$1,150 for a laptop and printer retained by Mr. Rice. Other equipment, including a docking station and monitor, may have been retained by Mr. Rice, but IASB staff were unable to confirm this.
- The letter to former CFO Jon Muller included an estimated fair market value of \$1,000 for a laptop retained by Mr. Muller.
- The letter to former employee Larry Sigel included an estimated fair market value of \$2,250 for two laptops, printer, monitor, docking station and accessories (network cables, webcam, USB cables and headset) retained by Mr. Sigel.

However, the letters provided were not on IASB letterhead or signed by Ms. Stalker. According to the letters, the amounts were not reported as income in the former employees' 2009 W-2. IASB did not amend the W-2's but, instead, recommended these former employees consult with their personal tax advisors regarding potential implications.

Except as noted, we did not find evidence the Board authorized or approved the contribution of IASB property to the former employees upon their departure from IASB. In addition, it is unclear why IASB Board or staff permitted departing employees to retain IASB property (computers and/or other office equipment) upon their departure.

According to the information provided by IASB staff, fair market value was estimated by IASB staff in September 2009 based on eBay or similar web site prices. It is unclear why fair market value was not reported on the former employees' 2009 W-2 since fair market value was considered and determined by IASB staff in September 2009. Due to lack of documentation regarding the specific property, including age and original cost,

we were unable to evaluate IASB's determination of estimated fair market value for the property retained by the three former employees. However, fair market value of \$2,250 for two laptop computers, including the preloaded hardware and software, along with all required computer accessories and peripherals previously described appears to be significantly understated.

We question why any former employees would have been allowed to retain possession of IASB property. We were unable to determine whether the computers and accessories had proprietary, sensitive and/or other IASB business information stored on them.

Article III, Section 31 of the Constitution of the State of Iowa provides public funds and public property may only be used to benefit the public. Chapter 721.2(5) of the Code of Iowa states, in part, "Any public officer or employee, or any person acting under color of such office, or employment, who knowingly does any of the following, commits a serious misdemeanor: Uses or permits any other person to use the property owned by the state or any subdivision or agency of the state for any private purpose and for personal gain, to the detriment of the state or any subdivision thereof."

Recommendation - Since IASB is funded primarily through public funds, the Board should consider the provisions and ramifications of Article III, Section 31 of the Constitution of the State of Iowa and Chapter 721.5(2) of the Code of Iowa.

In the future, the Board should evaluate and establish procedures pertaining to authorization and approval of the terms and conditions of employment, including salaries and benefits for employees during the term of their employment, as well as arrangements, if any, for retention of IASB property permitted upon departure. In addition, the Board should evaluate and establish procedures pertaining to authorization and approval for hiring, as well as the termination of employees, if any. If determined to be appropriate and approved by the Board, IASB should report the estimated fair market value of the property not paid for by the former employee as income on the employee's IRS Form W-2.

If IASB property (particularly computer equipment) is gifted and/or otherwise given to active or departing employees, the employees should not be allowed to retain proprietary, sensitive or other IASB business information.

Response - The current IASB staff is aware that Iowa law prohibits the use of public property for private purposes and agrees that this prohibition is also appropriate for IASB property. Therefore, the retention of IASB property by employees after their employment terminates will no longer be permitted. As stated in paragraphs A and E above, the Board has established procedures pertaining to authorization and approval of the terms and conditions of employment.

Conclusion - Response accepted.

- (G) Employees Paid as Independent Contractors - IASB paid and reported wages for employees on IRS Form W-2, but certain employees also received an IRS Form 1099 for services provided as independent contractors. IASB did not have documentation of an IRS Form SS-8, "Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding" for these employees.

In 1997, the Iowa Schools Cash Anticipation Program (ISCAP) and the Iowa Schools Joint Investment Trust (ISJIT), in partnership with the Institute for Educational Leadership (IEL) at the University of Northern Iowa, formed the Iowa School Financial and Leadership Consortium (ISFLC). Former employees Jon Muller, Margaret Buckton and Lawrence Sigel received payment from IASB as independent contractors for presenting

at the ISFLC conference. Although timesheets could not be located for these individuals, the ISFLC conferences occurred during normal IASB working hours while the individuals also received payment as employees of IASB.

Internal Revenue Code (IRC) 3121(c) pertaining to "included and excluded service" states, in part:

"For purposes of this chapter, if the services performed during one-half or more of any pay period by an employee for the person employing him constitute employment, all the services of such employee for such period shall be deemed to be employment; but if the services performed during more than one-half of any such pay period by an employee for the person employing him do not constitute employment, then none of the services of such employee for such period shall be deemed to be employment. As used in this subsection, the term 'pay period' means a period (of not more than 31 consecutive days) for which a payment of remuneration is ordinarily made to the employee by the person employing him. This subsection shall not be applicable with respect to services performed in a pay period by an employee for the person employing him, where any of such service is excepted by subsection (b)(9)."

Recommendation - Employees should not receive pay as an independent contractor for the same hours they are being compensated for as an employee. If employees are eligible to be compensated for services performed as employees of IASB, that compensation should be paid to IASB. In addition, consistent with IRC 3121(c), extra payments to IASB employees who provide additional services to IASB, if any, should be processed through IASB's regular payroll process and should be reported as wages on the employee's IRS Form W-2.

Response - The practices set out in paragraph G of the re-audit will no longer be permitted under current management. IASB employees will not receive any additional compensation for work performed during their regular hours of employment. In addition, all compensation will be included in employees' IRS Form W-2.

Conclusion - Response accepted.

- (H) Compensation - The fiscal year 2009 and 2010 audited financial statements of IASB included several findings and recommendations pertaining to compensation. In addition to those findings and recommendations, we noted the following:

Executive Director: An agreement (consulting agreement) with Ron Rice, former IASB Executive Director, provided for payment at "\$800 per day for 52 days within the 2009-10 fiscal year for such services and shall provide suitable office space and equipment (computer, phone, etc.), technology support, travel expenses and minimal secretarial and legal assistance" to be provided by Mr. Rice beyond July 30, 2009, the last day of employment as IASB's Executive Director. According to the IASB Board minutes dated June 18, 2009, the Board unanimously approved the agreement. However, the copy of the agreement provided was not signed or dated.

Current IASB staff represented no payments were made pursuant to the \$800 per day consulting agreement. However, pursuant to an IASB Board resolution unanimously approved by the IASB Board at the June 18, 2009 meeting, Mr. Rice would remain an employee of the Association through July 31, 2009. According to documentation provided by IASB staff, Mr. Rice received \$16,225 regular monthly salary plus an additional \$100 telephone allowance during the period July 1, 2009 through July 31, 2009. However, according to current IASB staff, Mr. Rice did not provide any services to or for IASB during July 2009 in exchange for this payment, no timesheets were completed and he was not scheduled for any activities or meetings during July 2009.

CFO: On March 30, 2009, LGS provided written "Notice of Termination of Agreement" to Jonathon A. Muller, former CFO. Article III, Section 11 of the LGS, Inc. Bylaws states, in part, the LGS Executive Committee "...shall have and may exercise, when the Board of Directors is not in session, the powers of the Board of Directors in the management of the business and affairs of the corporation..." The termination notice stated, in part, "upon authority of its Board of Directors" was signed by Ronald M. Rice, Executive Director, IASB, and was dated March 30, 2009. While the LGS Executive Committee approved the agreement, there was no evidence of LGS Board approval of this action. Pursuant to the notice, Mr. Muller was immediately relieved of his duties and was to be paid all amounts owing related to his base salary and benefits and the severance benefit pursuant to his employment agreement.

On April 30, 2009, the termination notice was rescinded. The document evidencing the rescission stated, in part, "upon authority of its Board of Directors" and included the electronic signature of Vice Chair Scott Hansen. While the LGS Executive Committee approved the agreement, there was no evidence of LGS Board approval of this action.

In addition, Mr. Muller's employment agreement was amended on April 30, 2009 by adding certain provisions to section 10 of the agreement pertaining to "Termination by Muller." The document evidencing the amended employment agreement did not include language referring to "upon authority of its Board of Directors." The amended employment agreement included the electronic signature of Vice Chair Scott Hansen and, while the LGS Executive Committee approved the agreement, there was no evidence of LGS Board approval of the amended employment agreement. According to minutes of the LGS Board of Directors meeting on May 13, 2009, "The Board received an update on the resignation of Jon Muller", but no LGS Board action was taken or documented.

Under the amended employment agreement, Mr. Muller received his regular salary of \$95,666 through June 30, 2009 plus a vacation payout of \$15,454, telephone allowance of \$300 and severance pay of \$143,499, for total payments of \$254,919 for calendar 2009. In addition, the amended employment agreement provided for a \$1,000 payment to Mr. Muller upon execution of the agreement, but no explanation of the reason or purpose for the additional \$1,000 payment was included in the amended agreement. According to the LGS Executive Committee meeting minutes dated April 29, 2009, "Jon requested \$1,000 to use toward legal fees. This was not required in the original employment agreement but it is not a bad thing as it helps LGS legally." The payment of \$1,000 to Mr. Muller was not reported on Mr. Muller's 2009 IRS Form W-2. Since the payment was made directly to Mr. Muller, it should have been reported on Mr. Muller's 2009 IRS Form W-2.

Recommendation – Even though the Executive Committee acted pursuant to the Bylaws, the Board should evaluate and establish procedures pertaining to authorization and approval of the terms and conditions of employment, including salaries and benefits for employees during the term of their employment. In addition, particularly in matters pertaining to Board officers, the Board should evaluate and establish procedures pertaining to authorization and approval for the hiring and the termination of Board officers and/or employees. All income should be properly reported on IRS Form W-2.

Response – As noted in Paragraph A, the Compensation Committee reviews in detail proposed employment agreements as well as proposed salary levels and benefits. In addition, salary level comparisons are provided, reviewed and documented for each employee hired. All employment agreements as well as salary levels are now reviewed and approved by the IASB or LGS board.

Conclusion – Response accepted.

- (I) IGrowth Assessment Services Valuation - As described in Exhibit 2, IGrowth Assessment Services is a suite of tools which analyze student achievement growth. It was initially developed under and held by the Iowa School Board Foundation (ISBF).

According to a spreadsheet prepared by former CFO Jon Muller pertaining to IGrowth Tool Valuation Analysis (Analysis):

- Net revenues ranged from approximately \$26,000 in fiscal year 2008 to a projected amount of approximately \$253,000 in fiscal year 2017.
- The asset was valued at \$130,156 in fiscal year 2008, with a projected value of \$1,264,906 in fiscal year 2017.
- Net present value (NPV) in five years was estimated at \$332,757. NPV in seven years was estimated at \$557,239 and NPV in ten years was estimated at \$871,823.

The ISBF minutes dated January 21, 2008 documented ISBF Board approval of an agreement between IASB and ISBF for the transfer of IGrowth to IASB. These minutes stated, in part, "Jon Muller discussed the transfer of IGrowth. A document was distributed outlining the value of IGrowth, projecting the possible number of schools involved and projected revenue. He noted that the auditors agreed that the value of \$557,000 for the tool is accurate. This transfer will not be a cash exchange but will take place only in the accounting system. This transfer agreement is on the January IASB agenda for approval, as well."

The IASB Board approved the agreement at its January 22-23, 2008 meeting, the minutes for which stated, in part, "Jon Muller noted this agreement explains the transfer of the software and intellectual property from ISBF to IASB. He noted IASB staff worked with our auditors, Brooks Lodden, to determine the true value of the transfer. The board members discussed the process used to determine the fair market value."

According to representations by the independent auditors, "Brooks Lodden staff discussed various valuation techniques; however, Brooks Lodden was not involved in the final value or method. Brooks Lodden did not see the final valuation until the time of the audit and after approval of both boards. Brooks Lodden's notes indicate that the valuation would be reviewed during the audit and evaluate the revenue on this tool in the future to determine if impairment exists; however for reporting purposes, this transaction will be eliminated in the consolidation of IASB and ISBF."

The transfer of the IGrowth asset from ISBF to IASB resulted, in part, in the ISBF fund balance increasing from a deficit balance of \$426,018 at June 30, 2007 to a balance of \$76,972 at June 30, 2008. IASB experienced an opposite and adverse effect as a result of this transfer. The independent auditors also indicated, "In lieu of exchanging the IGrowth tool, the other option would have been for IASB to record a contribution to ISBF to eliminate the payable due to IASB from ISBF (which would have been eliminated in the consolidation of IASB and ISBF). The end effect would have been the same."

Due to the lack of documentation, we were unable to review, evaluate and/or determine the reasonableness of the assumptions, criteria and rationale used to arrive at the initial estimated value of \$557,000. Revised projections subsequently prepared by IASB staff in February 2010 based on actual experience with eight schools resulted in a net present value of negative \$1,897 compared to Mr. Muller's projection of a positive value of approximately \$557,000. Independent consultants hired to assist IASB with cash flow concerns recommended 100% impairment of the IGrowth asset in April 2010.

According to Mary Delagardelle, former ISBF Director, the IGrowth tool is still available to school districts but is priced to cover costs rather than resulting in a profit to IASB.

Recommendation - IASB should review the IGrowth tool transaction and determine whether partial reimbursement from ISBF to IASB is required due to the significantly overstated estimated valuation. If transfers occur in the future, the asset value should be determined based on costs incurred and not on potential future earnings.

The IASB Board and the Boards of its related organizations should exercise caution and ensure complete and appropriate supporting documentation is provided and reviewed prior to Board authorization and approval.

Response – IASB has consulted with its independent auditor to determine whether partial reimbursement from ISBF to IASB is required at this time and has been advised that reimbursement is not required since IASB was financing the operations of ISBF. The alternative treatment for the transaction would have been for IASB to give ISBF a contribution in order to eliminate the amounts due from ISBF to IASB. The transaction was eliminated in the consolidated financial statements for 2008. During the 2009 audit, the asset was evaluated for impairment by the Board and the asset was written off. Therefore, there is no current value. If future transfers occur, IASB value will be determined based on costs incurred and not on potential future earnings.

Conclusion – Response accepted.

- (J) 2008 IRS Form 990 - Schedule J of IRS Form 990 is used to report key employees with reportable compensation over \$150,000 and also lists the five highest compensated employees with reportable compensation of at least \$100,000 who are not officers, directors, trustees or key employees of the organization. We noted the following in our review of the 2008 IRS Form 990, Schedule J (Schedule J) compared to the schedule provided to the Legislative Government Oversight Committee on November 10, 2010 reportedly prepared from IRS Form W-2 (W-2 Schedule). The W-2 Schedule stated, in part, "Employee wages may include any of the following: regular wages, bonus/commission, vacation payout, severance arrangement, auto, insurance, or cell phone allowances."

The following employees were reported as the five highest compensated IASB employees in IRS Form 990, Part II of Schedule J with a comparison to their compensation reported to the Legislative Government Oversight (LGO) Committee from the W-2 Schedule:

<u>Name</u>	<u>Schedule J Total Compensation</u>	<u>Compensation Reported to LGO Committee</u>
Ron Rice	\$ 254,919	\$218,963.80
Jon Muller	207,915	187,183.19
Lawrence Sigel	157,113	122,502.94
Margaret Buckton	152,496	128,855.80
Mary Delagardelle	152,391	120,557.16

According to IASB's independent auditors, "The amounts recorded on Schedule J are higher than the amounts reported to the Legislative Oversight Committee as W-2 wages since the wages on Schedule J Column E also include insurance benefits and 401(k) benefits for each of the respective individuals."

The compensation reported on Schedule J for Lawrence Sigel was overstated. The \$157,113 reported in Part II of Schedule J consisted of \$143,309 of base compensation plus \$13,804 of other compensation for a total of \$157,113. However, \$143,309 was the base compensation for LeGrande Smith. Mr. Sigel's salary should have been reported as \$136,151, consisting of \$123,316 of base compensation plus \$12,935 of benefits.

The compensation of \$143,309 reported for LeGrande Smith in Part VII of Schedule J did not include benefits totaling \$13,804, which was inconsistent with the total for compensation and benefits reported for all other employees.

Recommendation - IASB should consult with its independent auditors to determine whether the 2008 IRS Form 990 should be amended.

Response - The auditors have informed IASB that an amended 2008 IRS Form 990 has already been filed.

Conclusion - Response accepted.

- (K) PaySchools Program - PaySchools is an online payment processing system which allows schools to receive payments by e-check or credit card, giving parents flexibility and control over paying their school-related fees. While initially created to serve Iowa schools, the PaySchools program has expanded to serve schools on a nationwide basis. During fiscal year 2009, the PaySchools program processed transactions exceeding \$36,000,000 with significant growth in users and related transactions in subsequent periods. LGS charged and retained a specified percentage fee to schools based on the previous month's gross activity for this program. Bank and/or merchant fees were charged to PaySchools on a monthly basis and were periodically and randomly reimbursed by LGS.

We requested PaySchools reconciliations to document the program fees received and retained by LGS compared to the banks and/or merchants fees reimbursed by LGS since inception of the program, which should net to the administrative fees allowed to be retained by LGS. The information provided to us consisted of a summary of monthly sales, the program fees owed by schools and the date fees were received or invoiced, but did not include information to reconcile these transactions to bank and/or merchant fees charged to PaySchools and reimbursed by LGS.

IASB's independent auditors provided an excel spreadsheet summarizing PaySchools activity for fiscal year ended June 30, 2009, including receivables and payables. However, the summary did not demonstrate a definitive reconciliation and as such, we were unable to determine whether LGS reimbursed PaySchools for all bank and/or merchant fees. Therefore, we were unable to determine whether LGS retained more than it was entitled to and the effect, if any, on PaySchools Program financial performance and profitability. IASB's independent auditors represented they have been working with IASB to refine the reconciliation.

Recommendation - IASB and LGS should review and determine the financial performance status of the PaySchools Program, including requiring separate financial reporting and completion of accurate reconciliations in a timely manner. IASB and LGS should perform an analysis of financial performance and review administrative fees retained by LGS compared to the actual bank and/or merchant fees paid to determine the amount LGS owes the PaySchools Program, if any. IASB should continue to work with the independent auditors to develop a comprehensive reconciliation of PaySchools activity.

Response – IASB has conferred with its independent auditors regarding the financial reporting and reconciliations of the PaySchools Program. LGS staff have developed a template in consultation with the independent auditors to assist in tracking the amount owed to LGS and the amount owed to schools. In addition, LGS will utilize financial software that will allow it to develop program-based financials.

Conclusion – Response accepted.

Iowa Association of School Boards

Exhibits

Iowa Association of School Boards

Iowa Association of School Boards

IASB Request for Reaudit



IASB

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Maxine M. Kikcrease, Ph.D.

October 19, 2009

OCT 22 2009

David A. Vaudt, CPA
Auditor of State
State of Iowa
Room 111
State Capitol Building
Des Moines, Iowa 50319-0004

Dear Mr. Vaudt:

The Iowa Association of School Boards is requesting a reaudit for the period July 1, 2008 through June 30, 2009 pursuant to Chapter 11.6 (4) (b) of the Code of Iowa for all entities of the Iowa Association of Schools Boards which includes Local Government Services (LGS) per direction from the IASB Board of Directors at the October 8, 2009 meeting. We are requesting that the reaudit cover items for the years beginning July 1, 2005 through June 30, 2008 if issues emerge during the reaudit.

We request that the audit encompass an assessment of issues related to a significant and rapid decline in association resources over the last five years, as well as an of evaluation internal operations and procedures. We are requesting that the reaudit be performed in accordance with Chapter 11.6 (4) (b) of the Code of Iowa which states, "the state audit shall be paid from the proper public funds available in the office of the auditor of state".

We appreciate your assistance during this process.

Sincerely,

Jack Hill
IASB President

JH/db

Iowa Association of School Boards

Iowa Association of School Boards

IASB & Related Organizations Description of Program & Entities

*Presentation to Legislative Government Oversight Committee
April 29, 2010*

**IASB & Related Organizations
Description of Programs & Entities
April 2010**

There has been some confusion during discussions at the Government Oversight Committee about the number of legal entities related to the Iowa Association of School Boards, versus programs that are offered under those entities. Some people have asked about 17 entities, although in reality, there are only six existing legal entities. This document attempts to provide a clearer explanation.

Entity: Iowa Association of School Boards (IASB)

Programs:

Skills Iowa Program (Grant Funded)

Skills Iowa participating schools receive two Web-based technology tools and the training to implement those tools for students in third through 12th grades at no cost to the school. Both tools can be used wherever students have access to the Internet--at school, at home and in community libraries, just to name a few. Assessment Center, developed by the Princeton Review, is an online diagnostic assessment tool. It provides a bank of test questions in the subject areas of reading comprehension, mathematics, and language arts conventions. Educators develop assessments to inform them about student performance and receive results at their desk tops. The results are organized into useful reports that educators can use, in addition to other assessments they already collect, to plan for instruction. Skills Tutor provides online tutorials in the areas of reading comprehension, vocabulary, mathematics, grammar and informational skills. This program provides lessons for students lasting anywhere from 10 to 20 minutes in the listed content areas that can be used for remediation, acceleration and reinforcement.

Iowa Medicaid Education Disbursement Program (IMED)

IMED assists school districts and area education agencies (AEAs) in obtaining Medicaid reimbursement for students who are Medicaid eligible and receiving special education services. IASB has contracted with ClaimAid, a health-care consulting service, to provide this program to IASB members.

Iowa Playground Surfacing Program

The Iowa Playground Surfacing Program (IPSP) is designed to provide rubber tile surfacing for Iowa school playgrounds. IASB has partnered with the National Safe Surfacing Initiative to arrange interest-free loans to make this surfacing available to all schools in Iowa. IASB also administers a grant to schools for use in developing safe and compliant school playgrounds.

Safety Group Insurance Program

The Safety Group Program provides Iowa schools with a comprehensive insurance program covering property and casualty, errors and omissions, automobile, worker's compensation, general liability, commercial liability and

Iowa Association of School Boards

IASB & Related Organizations Description of Program & Entities

*Presentation to Legislative Government Oversight Committee
April 29, 2010*

other insurance services. The IASB Safety Group Insurance Program works with local insurance agents to provide unmatched insurance coverage to meet the unique risk management needs of schools at competitive, stable insurance prices. Equipment breakdown insurance is also available.

Iowa Schools Telecommunication Consortium (ISTC)

ISTC is a telecommunication program designed to save schools money on telecommunication services. Through provider Carrier Access Inc. and Qwest, schools can receive long distance rates as low as 4 cents per minute. ISTC also provides local services through Analog and T1, long distance switches, dedicated lines and web conferencing, Voice IP services and internet/data services

Lighthouse Multi-State Project: Board Leadership for Student Achievement (2006-present): (Grant Funded)

A five-year national study will replicate the Lighthouse approach developed in Iowa to test its effectiveness in five states and compare its effectiveness with best practices of state school board associations for developing board leadership for improving student learning in three additional states. (Jen, this was unclear to me... I can also ask Mary D.)

Comprehensive School-Improvement Assessment (CSA)

The CSA is a constructive, diagnostic service to help school districts study themselves in relation to specific conditions and beliefs associated with continuous improvement and higher levels of student performance.

IGrowth

IGrowth is a suite of tools that analyze student achievement growth. IGrowth will identify areas of strength and needed improvement to set improvement goals. The tools study five-year trends to enable districts to determine whether all individuals and subgroups are growing at least one year each year. Results also facilitate cost-benefit analysis and evaluation of programs and improvement initiatives.

Qualified Zone Academy Bonds (QZAB) Service

QZAB is a debt instrument that was created by Section 226 of the Taxpayer Relief Act of 1997. QZABs allow certain qualified schools to borrow at nominal interest rates for costs incurred in connection with the establishment of special programs in partnership with the private sector. All fifty states and US possessions have individual allocations of QZABs based on poverty levels in those areas. Very low interest rates of under 2% are very possible and, under certain circumstances, interest-free loans can sometimes be obtained.

Iowa Association of School Boards

IASB & Related Organizations Description of Program & Entities

Presentation to Legislative Government Oversight Committee
April 29, 2010

Entity: Local Government Services Inc (LGS)

Programs:

PaySchools

PaySchools is an online payment processing system that allows schools to receive payments by e-check or credit card, giving parents flexibility and control over paying their school-related fees.

Give2Schools

Give2Schools is an online payment processing system, a sister program to PaySchools, that allows school foundations to receive payments and donations by e-check or credit card, giving parents and donors flexibility and control over making donations online.

GASB 45 Compliance Service

This program with Gallagher Benefit Services, Inc. (GBS), offers Governmental Accounting Standards Board (GASB) Statement Number 45 actuarial and consulting services including calculation of all liabilities and providing the actuarial certification that will be required for the district's annual audit. IASB members will receive a substantial discount, and participants of the Iowa Schools Employee Benefits Association (ISEBA), which is a joint partnership between IASB and the Iowa State Education Association (ISEA), will receive an even deeper discount due to efficiencies in collecting their data.

Employee Background Investigation Service

In partnership with One Source Background Check Company, IASB/LGS created the Employee Background Investigation Service. The service provides school districts with the ability to check multiple background-information sources with a single service.

Iowa Drug and Alcohol Testing Program

IDATP assists school corporations, nonpublic schools and contractors transporting students to economically and efficiently comply with state and federal drug and alcohol testing requirements for drivers. IDATP also has a variety of online educational training tools.

Iowa Construction Advocate Team (ICAT)

ICAT helps districts of all sizes take advantage of these funds to create the best possible learning environment in all our schools across the state. The objective of ICAT is to ensure that every penny is spent improving the learning environments shared by our teachers and students. ICAT offers services throughout all phases of construction, from developing your Revenue Purpose Statement through your final walk-through. ICAT was originally offered through LGS contractors Duane Van Hemert and Sam Harding, then has been in transition to move to a partnership with Estes Construction. No contract currently exists on this program.

Iowa Association of School Boards

IASB & Related Organizations Description of Program & Entities

*Presentation to Legislative Government Oversight Committee
April 29, 2010*

Check Recovery Service

Paytek Solutions provides an automated service to recover bounced checks.

Edulog Transportation Service

School transportation routing and related computer software has become more powerful, easier to use and more affordable for school districts of all sizes than ever before with Edulog.

Entity: Iowa School Boards Foundation (ISBF)

Programs:

Promoting Student Success (formerly CLIK)

To promote effective policy and best practice resulting in the early literacy development of all Iowa children, the Promoting Student Success (formerly known as CLIK) project serves educational policy makers, business leaders and other key stakeholders with credible research, information and tools related to quality early literacy and early childhood issues.

Iowa Statewide Parent Information Resource Center (PIRC)

Iowa Parents.org is a joint effort between the School Administrators of Iowa (SAI), the Iowa Department of Education (DE), and Area Education Agency 267 (AEA 267). PIRC is committed to increasing parent and educator knowledge about effective parent involvement strategies aimed at increased student achievement.

Qwest Grant

The Iowa School Boards Foundation receives \$50,000 from the Qwest Foundation to be awarded to Iowa educators proposing innovative classroom uses of technology. The goal of the mini-grant program is to provide support to educators who utilize technological tools to deliver instruction based upon rigorous curriculum expectations and increase the development of higher order thinking skills for all students.

Other projects of ISBF are funded, paid, and accounted for as part of IASB.

Entity: Iowa Schools Joint Investment Trust (ISJIT)

ISJIT assists school corporations in safely increasing their investment income. ISJIT offers several investment alternatives such as Diversified and Direct Government Obligation (DGO) to meet participants' cash management needs plus other services such as money market funds, flex term CDs, and now full checking services.

Iowa Association of School Boards

IASB & Related Organizations Description of Program & Entities

*Presentation to Legislative Government Oversight Committee
April 29, 2010*

Entity: Iowa School Cash Anticipation Program (ISCAP)

ISCAP allows school corporations to pool their temporary cash flow management needs in a safe, cost-effective program. ISCAP allows schools to cooperatively issue warrant certificates to finance cash flow deficits until revenues from property taxes and state foundation aid are received. When ISCAP funds are not being used, they are invested in a guaranteed investment contract. Earnings from this investment help offset the costs of the program for each participant.

Entity: Iowa Schools Employee Benefits Association (ISEBA)

ISEBA is fully insured for medical, prescription drug, vision, dental, life and disability insurance coverage. Voluntary program benefits like long-term care, supplemental insurance, critical illness, and medical bridge benefit plans are also available to all Iowa school employees. Providers/partners include Iowa Farm Bureau of Iowa, Wellmark Blue Cross and Blue Shield of Iowa, Delta Dental, Avesis, UnumProvident.

ISEBA is a separate but related entity governed by a board of directors appointed by the Iowa Association of School Boards and the Iowa State Education Association (ISEA). The day-to-day administration of the program used to be managed by Local Government Services but is now managed by Reynolds & Reynolds.

Entity: Iowa Joint Utility Management Program (IJUMP) - Dissolved

IJUMP is designed to assist school district with lowering energy costs and providing budget stability. IJUMP's utility partners—Alliant Utilities, MidAmerican Energy, Aquila and United Cities Gas Co.—developed IJUMP pilot programs and adjusted tariff requirements to increase savings for school districts.

Entity was dissolved on 6/2009 after transferring all of its assets to Seminole Energy Services. IJUMP is now a passive sponsorship program under the IASB entity.

Iowa Association of School Boards

United States Department of Education Program Determination



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

AUG 29 2011

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Mr. Russ Wiesley
Board President
Iowa Association of School Boards
6000 Grand Avenue
Des Moines, Iowa 50312

Re: Audit Control Numbers: 07-09-09484 and 07-10-19409
Grant Award Numbers: U215K080045; U215K080143;
U215K090064; and U215K100210

Dear Mr. Wiesley:

This letter transmits the U.S. Department of Education's (ED) program determinations for the eight findings cited in the above referenced audit reports on Iowa Association of School Boards (IASB) for the periods July 1, 2008, to June 30, 2009, and July 1, 2009, to June 30, 2010, respectively. The audit reports were prepared in compliance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audits were performed by Brooks Loden, P.C., and the reports were issued for resolution on November 30, 2010, and March 8, 2011, respectively, by ED's Post Audit Group (PAG), Financial Improvement and Post Audit Operations, Office of the Chief Financial Officer, Washington, DC.

Finding No. IASB-2010-20, Page 40, and Finding No. IASB-2010-20A, Page 47, Cash Management, Repeat Finding

The auditors stated that during fiscal year 2009, Iowa Association of School Boards (IASB) received two grants for the Skills Iowa program; a State grant in the amount of \$500,000 and a Federal grant in the amount of \$2,394,015.

The auditors reported that after applying \$500,000 of expenditures to the Skills Iowa State grant, IASB used the same documentation to support two subsequent cash draws performed for the Federal grant on January 22, 2010 (\$476,530.76), and on January 28, 2010 (\$17,401.37), totaling \$493,932.13.

The auditors stated that the management at the time ignored concerns raised by the program director, and failed to respond to her requests for financial information to make the determination of the appropriateness of the cash draws on the Federal grant. The auditors reported that a subsequent investigation, triggered by the program director's concerns, revealed that the \$493,932.13 had been inappropriately drawn down on the Federal grant, and IASB repaid the \$493,932.13 to ED on April 14, 2010.

400 MARYLAND AVE. S.W., WASHINGTON, DC 20202
www.ed.gov

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

Iowa Association of School Boards

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Iowa Association of School Boards

Auditors' Recommendation

The auditors recommended that IASB establish procedures over Federal grants to ensure that appropriate documentation is in place and approved before grant funds are drawn down.

The auditors further recommended that IASB ensure its employees possess the necessary skills to understand the grants, the expenses associated with the grants, and Federal laws, rules, and regulations associated with the grants, as well as the documentation, reporting, and compliance requirements necessary to support expenditures.

IASB's Response

In its response included in the fiscal year 2009 audit report, IASB stated that the grants policy would be revised to require documentation of grant procedures, signature approval by the grant project director and controller, documenting approval of the grant expenditures prior to requesting reimbursements of Federal funds. IASB further stated that the grants policy would also require compliance of all grant provisions and regulations (including procurement), and require employees or contractors working on grant projects to keep detailed time records. IASB asserted, in its response included in the fiscal year 2010 audit report, that the grants policy was revised on July 14, 2010.

The auditors concurred with IASB's adopted policy, according to the fiscal year 2010 audit report; however, the auditors also cautioned that procedures must also be in place to ensure compliance with the policy.

PAG Determination

We sustain the audit findings and concur with the auditors' recommendations. At ED's request for an update on corrective actions taken, Mr. Randall Lagerblade, Accounting Manager, responded via an email dated July 28, 2011. Mr. Lagerblade explained that in September 2009 a new executive of IASB terminated the director of finance, resulting in the loss of accounting and grant administration knowledge. Mr. Lagerblade further explained that during this confusing time, IASB made an erroneous assumption that the expenditures (which were previously reimbursed by the State grant) would qualify for the Federal grant drawdown, as the new executives failed to realize the existence of the state grant. Mr. Lagerblade stated that it was not until 30-60 days later when it was discovered and verified that these expenses had already been applied to the state grant, and IASB then made arrangement to return the overdrawn Federal funds.

Mr. Lagerblade stated that IASB's Board of Directors has passed a grants policy as of July 14, 2010, and employees have taken strides to comply with the new policy. In the same email, Mr. Lagerblade also forwarded to our review IASB's policy and procedures relating to grants administration.

Iowa Association of School Boards

United States Department of Education Program Determination

Iowa Association of School Boards

In an email dated August 25, 2011, Mr. Galen Howsare, Chief Financial Officer, responded to our query regarding possible interest earned by the excess cash draw, stating that the funds were deposited in a non-interest-bearing account.

We also contacted Mr. Joe Desmond, an audit supervisor at Brooks Lodden, P.C., regarding the finding, and he provided the following additional detail:

The prior Finance Director was terminated without cause and another individual was hired without any training on the grants. The new individual did not know that \$500,000 of the program expenditures were [drawn] down on the state grant and used the expenditures applied to the state grant to draw down against the federal grant. In addition, as you will see in the attached documents, the program director tried to find out what grant was drawn down on and requested the information in a timely manner; however, her questions went unanswered. It wasn't until March 2010 [when] the prior Finance Director returned that it was determined that the organization used the same expenses to draw down both state and Federal dollars.

Based on the review of information received, we accept IASB's responses, which indicate that corrective actions are being taken to prevent a recurrence of the finding. The auditors will perform audit follow-up procedures in subsequent OMB Circular A-133 audits to determine that actions have been taken to correct the finding.

Finding No. IASB-2009-04, Page 47, and Finding No. IASB-2010-21A, Page 44, Procurement, Repeat Finding

The auditors stated that during their review of expenditures related to the Skills Iowa program, they found that IASB's subcontracting activities did not comply with the procurement standards set forth in the Education Department General Administrative Regulations (EDGAR), specifically when it awarded the software contracts to U.S. Skills, LLC for the software for the school districts participating in the program.

The auditors stated that IASB started administering the Skills Iowa program during the 2007-2008 fiscal year, and it continued to use the same software that was originally purchased by its predecessor, Education Leaders Council, in 2002. The auditors reported that the grant was written as a continuation of the Skills Iowa program, and no bidding was performed as required by EDGAR.

The auditors stated that they discussed the software bidding issue with ED's program officer on June 10, 2010, and ED's program office considered the software as an update, and not new acquisition; therefore, IASB did not have to submit the purchases to the bidding process. The auditors also stated that they determined, based upon information provided by management, the cost of the software received during both fiscal years were provided at a 59 percent discount to IASB.

Iowa Association of School Boards

United States Department of Education Program Determination

Iowa Association of School Boards

Auditors' Recommendation

The auditors recommended IASB adopt procurement policies and procedure that comply with all the requirements set forth in regulations in 34 C.F.R. Sections 74.40 through 74.48 and ensure that it complies with procurement and documentation standards set forth in ED regulations when renewing or awarding any Federally funded contracts. The auditors stated that to avoid any future issues with bidding on unique items, the cost comparisons and the explanation of why the amount will not be bided out should be in the application and obtain preapproval to ensure that all parties agree in advance of how the grant money would be spent.

IASB's Response

In its response included in the fiscal year 2010 audit reports, IASB stated that the grants policy was revised on July 14, 2010, to require documentation of grant procedures, signature approval by the grant project director, and controller documenting approval of the grant expenditures prior to requesting any reimbursements of Federal funds. IASB also stated that the grants policy requires compliance of all grant provisions and regulations (including procurement), and requires employees or contractors working on grant projects to keep detailed time records.

PAG Determination

We sustain the audit findings and concur with the auditors' recommendations. At ED's request for an update on corrective actions taken, Mr. Randall Lagerblade, Accounting Manager, responded via an email dated July 28, 2011, stating that IASB accept that proper internal controls were not in place at the time of the software upgrade purchases; however, IASB has taken necessary steps to ensure that it is operating within the EDGAR procurement standards and IASB internal policies. Mr. Lagerblade also forwarded to our review IASB's newly adopted policy and procedures relating to grants administration (Internal Control & Accounting Process Documentation).

We also contacted Mr. Joe Desmond, an audit supervisor at Brooks Lodden, P.C., regarding the finding, and he provided the following additional detail:

This finding occurred as a result of conversations between our firm, USDE, and IASB staff. The USDE reviewed the software and determined it was more of an update vs purchasing new software. The Schools do not actually own the software nor does the Association. The USDE recommended that even though the software was not bided up that the organization should still [incorporate the bidding process in its procedures] when dealing with situations such as with this software. This was reported and recommended by our firm that the organization should establish procedures to comply with EDGAR.

Based on the review of information received, we accept IASB's responses, which indicate that corrective actions are being taken to prevent a recurrence of the finding. The auditors will perform audit follow-up procedures in subsequent OMB Circular A-133 audits to determine that actions have been taken to correct the finding.

Iowa Association of School Boards

United States Department of Education Program Determination

Iowa Association of School Boards

Finding No. IASB-2009-05, Page 48, Allowable Costs, \$5,413 in Questioned Costs

The auditors stated that during their review of expenditures charged to the Skills Iowa grant, they noted various incorrect charges, totaling \$5,413. In addition, they also noted that personnel have charged their time to the code designed for the Federal grant; however, a full description of the activity was not always included with the time entry entered into the system.

Auditors' Recommendation

The auditors recommended that IASB establish procedures to ensure that all costs are reviewed and documented by an independent person before the expenses are submitted to the Federal government for reimbursement. The auditors further recommended that IASB work with ED to repay the overage charges.

IASB's Response

In its response included in the audit report, IASB stated that the grants policy would be revised to require documentation of grant procedures, signature approval by the grant project director and controller documenting approval of the grant expenditures, prior to requesting any reimbursements of Federal funds. IASB also stated that the grants policy would require compliance of all grant provisions and regulations (including procurement), including the requirement that employees or contractors working on grant projects keep detailed time records.

IASB further stated that it would work with auditors and ED to determine how and when to repay the incorrect charges.

PAG Determination

We sustain the audit findings and concur with the auditors' recommendations. At ED's request for an update on corrective actions taken, Mr. Randall Lagerblade, Accounting Manager, responded via an email dated July 28, 2011, stating that IASB has taken steps to prevent similar errors from recurring in the future by implementing the new grant policy and internal control procedures, including the requirement of accounting department to recalculate all submitted expenditures to verify that appropriate cost reimbursement rates are used. Mr. Lagerblade further stated that multilevel review by accounting and grant personnel should also help prevent future errors.

During the audit resolution process, we noted that IASB did not apply for or received an indirect cost rate; however, it charged indirect costs to the grants using its financial data on the Form 990. We contacted ED's Fund for the Improvement of Education program office, and confirmed that the program office was aware of the calculation methodology and considered that allowable. The program office stated that since ED is the only agency from which IASB received funds, it was allowable for them to use the Form 990 method. We recommend that IASB gain full understanding of the requirements relating to indirect cost billing and submit a proposal for indirect cost rate for the future projects.

Iowa Association of School Boards

United States Department of Education Program Determination

Iowa Association of School Boards

We also contacted Mr. Joe Desmond, an audit supervisor at Brooks Lodden, P.C., regarding the finding, and he forwarded the audit workpapers for our review. We concurred with the auditor's assessment of the questioned costs and confirmed that a reimbursement check, dated April 29, 2011, in the amount of \$10,544 (including the \$5,413 for the finding), was received by ED's Accounts Receivable Group on May 4, 2011.

Based on the review of information received, we accept IASB's responses, which indicate that corrective actions are being taken to prevent a recurrence of the finding. The auditors will perform audit follow-up procedures in subsequent OMB Circular A-133 audits to determine that actions have been taken to correct the finding.

Finding Nos. IASB-2009-06, Page 49, Allowable Costs, \$5,131 in Questioned Costs

The auditors stated that during their review of expenditures charged to the Lighthouse grant, they noted that \$861 in expenses did not have adequate documentation and indirect costs of \$4,270 were calculated incorrectly on one subcontractor, resulting in total of \$5,131 incorrect costs charged to the grant.

Auditors' Recommendation

The auditors recommended IASB establish procedures to ensure that all costs are reviewed and documented by an independent person before the expenses are submitted to the Federal government for reimbursement. The auditors further recommended that Management should also work with ED to return the overage or determine if this can be offset against future claims against this grant.

IASB's Response

In its response included in the audit report, IASB stated that the grants policy would be revised to require documentation of grant procedures, signature approval by the grant project director and controller documenting approval of the grant expenditures, prior to requesting any reimbursements of Federal funds. IASB also stated that the grants policy would require compliance of all grant provisions and regulations (including procurement), including the requirement that employees or contractors working on grant projects to keep detailed time records.

IASB further stated that it would work with auditors and ED to determine how and when to repay the remaining incorrect charges.

PAG Determination

We sustain the audit findings and concur with the auditors' recommendations. At ED's request for an update on corrective actions taken, Mr. Randall Lagerblade, Accounting Manager, responded via an email dated July 28, 2011, stating that IASB's newly adopted grant policy and procedures would help ensure proper documentation and that the accounting and operations is

Iowa Association of School Boards

United States Department of Education Program Determination

Iowa Association of School Boards

managing and meeting the terms of grants. Mr. Lagerblade also forwarded to our review IASB's policy and procedures relating to grants administration (Internal Control & Accounting Process Documentation).

We also contacted Mr. Joe Desmond, an audit supervisor at Brooks Lodden, P.C., regarding the finding, and he forwarded the audit workpapers for our review. We concurred with the auditor's assessment of the questioned costs and confirmed that a reimbursement check, dated April 29, 2011, in the amount of \$10,544 (including the \$5,131 for the finding), was received by ED's Accounts Receivable Group on May 4, 2011.

Based on the review of information received, we accept IASB's responses, which indicate that corrective actions are being taken to prevent a recurrence of the finding. The auditors will perform audit follow-up procedures in subsequent OMB Circular A-133 audits to determine that actions have been taken to correct the finding.

Finding No. IASB-2009-07, Page 50, and Finding No. IASB-2010-22A, Page 46, Cash Management

The auditors stated, due to several individuals assigned to the grant not providing their timesheets to the Director of Finance in a timely manner, the Federal grant draws for the Lighthouse grant were not performed in a timely manner. The auditors reported that the draw was not performed until September 15, 2009, for the period July 1, 2008, through June 30, 2009.

Auditors' Recommendation

The auditors recommended that IASB establish procedures to require employees working on Federal grants to account for time at least monthly and include a full detailed description of the activities performed by the employee on a daily basis. They further recommended that IASB to ensure that all contractors who performs services on the grant have a signed contract on file before any disbursements are made.

IASB's Response

In its response included in the fiscal year 2010 audit reports, IASB stated that the grants policy was revised on July 14, 2010, to require documentation of grant procedures, signature approval by the grant project director, and controller documenting approval of the grant expenditures prior to requesting any reimbursements of Federal funds. IASB also stated that the grants policy requires compliance of all grant provisions and regulations (including procurement), and requires employees or contractors working on grant projects to keep detailed time records.

PAG Determination

We sustain the audit findings and concur with the auditors' recommendations. At ED's request for an update on corrective actions taken, Mr. Randall Lagerblade, Accounting Manager, responded via an email dated July 28, 2011, stating that IASB is aware of the importance of timely draw requests and have taken appropriate actions to rectify the issues and problems

Iowa Association of School Boards

United States Department of Education Program Determination

Iowa Association of School Boards

relating to drawdowns. Mr. Lagerblade further stated that IASB has made it a priority to submit monthly draw requests within sixty days of the end of each month; however, due to the fact that IASB was put on reimbursement by ED, Mr. Lagerblade has expressed IASB's need for a speedier reimbursement process by ED's program office, as the delay in payment processing has caused financial strain upon IASB.

We contacted Ms. Soumya Sathya, and confirmed that her office is currently working on the reimbursements and anticipate the release of payments in the very near future. We reviewed the drawdown history logs for the grants IASB has submitted to us for review, and encourage IASB to continue its efforts to timely submit its expenses for reimbursement.

In regards to the auditors' concern that timesheets were not properly reflecting work performed, Mr. Lagerblade stated that they are confident that the changes made to the timesheets are meeting the compliance requirement, based upon the draw approvals IASB has received from ED's program office. Mr. Lagerblade forwarded for our review a copy of the newly revised sample timesheet, reflecting information such as project code, date and hours on the project and a description of the work performed.

In regards to contractor files, Mr. Lagerblade stated that they have reviewed their files and found that all the contractors' agreements have been signed, with the exception of one, which is being reviewed by IASB management and the contractor's attorney.

Based on the review of information received, we accept IASB's responses, which indicate that corrective actions are being taken to prevent a recurrence of the finding. The auditors will perform audit follow-up procedures in subsequent OMB Circular A-133 audits to determine that actions have been taken to correct the finding.

Should you have any questions concerning this program determination letter, please contact Ms. Emily Wen of my staff at 202-377-4254.

Sincerely,



Farrand C. Prindle
Senior Audit Resolution Specialist
Post Audit Group
Financial Improvement and
Post Audit Operations

CC: Randall Lagerblade, Accounting Manager
Galen Howsare, Chief Financial Officer
Soumya Sathya, OII
Joe Desmond, Audit Supervisor

Iowa Association of School Boards

Local Government Services, Inc. (LGS) – Background on Loans with IASB

*Presentation to Legislative Government Oversight Committee
April 29, 2010*

Local Government Services, Inc. (LGS) – Background on Loans with IASB

| Summary

If LGS did not exist as an entity, all of the same programs, and the revenues and expenditures associated with them, would flow through the Association's finances rather than some through the Association and some through LGS. The programs and services of both entities both work for the same mission, are just to separate the core non-profit mission work from the non-core mission work to ensure proper separation for tax purposes.

Financial reporting for all Association controlled entities including LGS are presented in consolidated financial statements. All transactions between controlled entities are completely eliminated when presenting the consolidated Association financial statements including the loans between the entities. The two separate entities are merely an accounting issue, but should be viewed as two halves of whole.

Below you will find a detailed outline of how IASB came to create LGS. It includes the need for IASB to invest about \$5 million, which went into the purchase of the 6000 Grand office building, furnishings, and related expenses.

Background

Local Government Services (LGS) is a for-profit, wholly-owned subsidiary of the Iowa Association of School Boards (Association). LGS operates in a support capacity for the Association, which includes technology, infrastructure, and office operations. LGS also seeks to create aggregation opportunities for members of the Association and other educational and government institutions in Iowa and other states, and operates the Association's sponsored programs. LGS is run for the benefit of the members of the Association, and all net revenue returned to the Association is invested into member services such as training for school boards. By creating new business services and making existing business services more efficient, LGS preserves resources for the Association's members for student achievement and allows administrators to focus on the core mission of public education. Business services include marketing and administrative support for both nonprofits and intergovernmental organizations, PaySchools, and other Association sponsored programs.

LGS is governed by a Board of Directors. All LGS board members also serve as board members of the Association to ensure LGS is ultimately operating for the benefit of the Association and its members. The Association's Executive Director is the Chairman of the LGS Board of Directors. Prior to April 2009, the President of LGS was also the CFO of the Association. Subsequent to April 2009, it appears the position of LGS President was vacant. As of June 30, 2009, LGS employed approximately 20 staff members including IT, Accounting, Print/Production, and Business Services.

Iowa Association of School Boards

Local Government Services, Inc. (LGS) – Background on Loans with IASB

*Presentation to Legislative Government Oversight Committee
April 29, 2010*

History of LGS and Loans

In February 2003, the Association engaged a CPA firm to review and evaluate their finances with respect to unrelated business income on the various business programs and advice on any risks to their non-profit status. The CPA firm reported that once an exempt organization has income representing 30 percent or more of their revenues, their exempt status can be called into question. This report was presented to the Association's Board of Directors by Larry Sigel in March 2003. The Association did not take action at that time, but began keeping a close watch on their income from business programs.

During the 2004-05 fiscal year, the sponsorship and administration of the various business service programs reached around the 30 percent level. In May 2005, Ron Rice reported to the Association's board of directors that the Association had begun discussions of involving other state school board associations in the sponsorship of the PaySchools program. During that meeting, Ron Rice told the board that management may be bringing the board a request for approval of a for-profit subsidiary organization.

During September 2005, Ron Rice shared that a new entity, Local Government Services, was being established to spin-off some of the business services into a for-profit subsidiary. Larry Sigel noted that establishing the for-profit subsidiary to receive business services income could help the Association maintain its tax-exempt status. Nolden Gentry, who was legal counsel at the time, then reviewed with the board the Articles of Incorporation and Bylaws, and noted the Association's board would control and designate the LGS board members. The Association's board approved the Articles and Bylaws of LGS at this board meeting.

At the November 2005 Association board of directors meeting, the board voted to purchase 1000 shares of LGS stock for \$10,000. It was noted that the Association owned and will own 100 percent of LGS stock. In effect, IASB made an investment

At the January 2006 meeting of the Association's board of directors, the board received a report on facility needs and various purchasing scenarios for new office building space. The board authorized Ron Rice to make an offer on the 6000 Grand building.

At the March 2006 Association board of directors meeting, the board approved the purchase of the building at 6000 Grand and discussed various financing scenarios and whether it was most appropriate to purchase the building through the Association or LGS. The board authorized the Executive Director to determine the most advantageous structure and if necessary, assign the building purchase agreement to LGS. These decisions were finalized by the Association's board of directors at their meeting on April 12, 2006.

The Executive Director and management in conjunction with the external auditors determined the building was best owned and financed by LGS rather than the Association. This was primarily due to the fact that the building at 6000 Grand would have outside tenants renting space from the Association and therefore the Association would have unrelated business income from the rental space. The Association provided a loan to LGS for purchase of the 6000 Grand building.

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Iowa Association of School Boards

Local Government Services, Inc. (LGS) – Background on Loans with IASB

*Presentation to Legislative Government Oversight Committee
April 29, 2010*

In September 2006, the Association's board approved a services agreement, various sponsorship agreements, and a lease agreement between the Association and LGS. The Association also made a capital contribution to LGS for all furniture, fixtures, equipment, hardware and software. In return, the Association received 27,100.56 additional shares of LGS stock at \$10/share. The Association also authorized a loan payment to LGS for purchasing the PaySchools software from the technology vendor in the amount of \$300,000.

In November 2006, LGS and the Association entered into an ongoing cash flow agreement. The agreement allowed the Association to loan funds to LGS for cash flow purposes. An interest rate equal to the Association's earned daily rate plus .5 percent was established for any amounts loaned from the Association to LGS.

The purchase of the building and expenses associated with the build out of the office space, amounted to approximately \$3.5 million. LGS also purchased furniture, equipment, and hardware & software after the move to 6000 Grand. These purchases required cash flow advances from the Association and were added to the loan balance.

Between 2006 and 2009, the Association and LGS continued to review the allocation of revenues and expenses between entities in an attempt to ensure all active business service revenues were reported through LGS, and only passive sponsorships were reported through the Association. The Association's and LGS' boards of directors took multiple actions during that time to revise agreements, pricing, and transition participation agreements between entities in an attempt to ensure revenues and expenses were properly recorded.

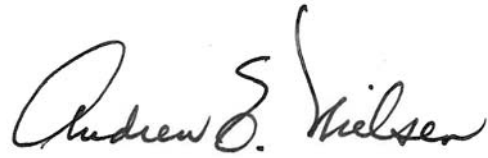
The total loan balance including the purchase of the 6000 Grand building, build out expenditures, the PaySchools software acquisition, the transition and purchase of hardware, software, furniture, fixture and equipment, and additional cash flow advances amounted to approximately \$5 million as of June 30, 2009. Management had discussed with the external auditors on multiple occasions during late 2008 and 2009 regarding their intention to recapitalize and have LGS issue additional shares of stock to the Association to essentially clear off this loan balance and prevent the loan amount from growing larger in the future. The action is still under consideration and has been discussed with the board of directors. The loan remains on the books as a payable to the Association and a receivable from LGS.

Iowa Association of School Boards

Staff

This reaudit was performed by:

Susan D. Battani, CPA, Director
Donna F. Kruger, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Alison P. Herold, CPA, Staff Auditor
Keith C. Kistenmacher, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State