

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact: Mary Mosiman
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE

November 2, 2016

Auditor of State Mary Mosiman today released a report on a special investigation of the Melcher-Dallas Community School District (District) for the period July 1, 2013 through January 31, 2016. The special investigation was requested by District officials due to concerns identified with certain disbursements issued by the former Business Manager, Nathan Spiegel. Mr. Spiegel submitted his resignation on January 16, 2016, which was effective immediately.

Mosiman reported the special investigation identified \$52,701.39 of improper and unsupported disbursements. The \$48,862.14 of improper disbursements identified includes \$24,984.17 of payroll issued to Mr. Spiegel, \$13,450.95 of other payments issued to Mr. Spiegel, \$5,803.28 for the District's share of health benefits for Mr. Spiegel, \$3,309.99 for the District's share of FICA and IPERS on the improper payroll, \$1,113.75 for reimbursements for which no supporting documentation was available, and a \$200.00 cash withdrawal. The \$3,839.25 of unsupported disbursements includes \$2,326.75 of petty cash disbursements, \$1,027.15 of checks redeemed for cash for various reimbursements for which sufficient supporting documentation was not available, and \$485.35 of reimbursements issued to Mr. Spiegel for which sufficient supporting documentation was not available. It was not possible to determine if additional amounts were improperly disbursed because sufficient records were not readily available.

Mosiman also reported the \$24,984.17 of improper payroll identified includes \$20,703.43 of hourly pay issued to Mr. Spiegel. However, there was no provision in his employment contract for him to earn additional hourly pay, and the additional hours were not approved by the Board. In addition, \$11,673.64 of the \$13,450.95 of other payments issued to Mr. Spiegel was for payroll advances, which were not approved by the Board.

This report includes recommendations to strengthen the District's internal controls and overall operations, such as improving segregation of duties, ensuring all disbursements are properly reviewed and approved, including payroll, and requiring sufficient supporting documentation for all disbursements.

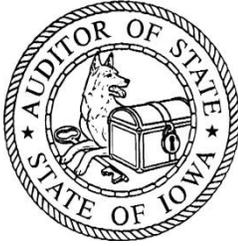
Copies of the report have been filed with the Marion County Sheriff's Office, the Division of Criminal Investigation, the Marion County Attorney's Office, and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1530-4212-BE00>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT
FOR THE PERIOD
JULY 1, 2013 THROUGH JANUARY 31, 2016**

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Telephone (515) 281-5834 Facsimile (515) 242-6134

Auditor of State's Report

To the Board of Education of the
Melcher-Dallas Community School District:

As a result of concerns regarding certain disbursements, including payroll, and at the request of District officials, we conducted a special investigation of the Melcher-Dallas Community School District (District). We have applied certain tests and procedures to selected financial transactions of the District for the period July 1, 2013 through January 31, 2016. Based on discussions with District officials and personnel and a review of relevant information, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Interviewed District officials, including former and current Board members, to gain an understanding of certain procedures and inquire about certain transactions processed by the former Business Manager, Nathan Spiegel.
- (3) Examined images of redeemed checks and withdrawal documents for certain payments issued from the District's checking account and endorsed by Mr. Spiegel to determine propriety.
- (4) Reviewed payroll disbursements and other payments issued to Mr. Spiegel to determine the propriety of the payments and if the amounts were appropriate.
- (5) Reviewed the District's accounting records to determine if certain payments issued to other District employees were related to payroll and should have been issued through the District's payroll system.
- (6) Obtained and reviewed the personal bank statements of Mr. Spiegel to identify the source of certain deposits.
- (7) Interviewed Mr. Spiegel to obtain explanations for certain procedures and transactions.

These procedures identified \$52,701.39 of improper and unsupported disbursements. We were unable to determine if additional amounts were improperly disbursed during the period reviewed because adequate records were not available. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** through **E** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the financial statements of the Melcher-Dallas Community School District, other matters might have come to our attention which would have been reported to you.

Copies of this report have been filed with the Marion County Sheriff's Office, the Division of Criminal Investigation, the Marion County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance extended to us by personnel of the Melcher-Dallas Community School District during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State

October 11, 2016

Report on Special Investigation of the
Melcher-Dallas Community School District

Investigative Summary

Background Information

The Melcher-Dallas Community School District (District) is located in Melcher-Dallas, Iowa and serves approximately 370 students in Marion County. The District is governed by a 5 member Board which meets the third Monday of each month.

Nathan Spiegel was hired as the Business Manager/Board Secretary/Treasurer effective July 1, 2013 and served in that position until his resignation effective January 16, 2016. As the Business Manager/Board Secretary/Treasurer, Mr. Spiegel was responsible for:

- 1) Receipts – collecting, posting to the accounting records, and preparing and making bank deposits;
- 2) Disbursements – making certain purchases, receiving certain goods and services, presenting proposed disbursements to the Board for approval, maintaining supporting documentation, preparing, signing, and distributing checks, and posting to the accounting records;
- 3) Payroll – calculating payroll amounts, preparing, signing, and distributing checks, and posting payments to the accounting records;
- 4) Bank accounts – receiving and reconciling monthly bank statements to accounting records; and
- 5) Board meetings – preparing information for the monthly Board meetings, including agendas, information packets for the Board members, financial reports, bill listings, and other information, as needed. In addition, attending all Board meetings, recording minutes of the meetings, and preparing and publishing all legal notices concerning District business, including Board meeting minutes.

All District disbursements, including payroll, are to be made by checks drawn on District accounts and supported by invoices or other documentation obtained by or submitted to the Business Manager. Each month, the Business Manager is to prepare a listing of bills to be paid and provide the listing to the Board for approval. After the Board approves the bills, the Business Manager is to prepare and sign the checks. The checks are to be counter-signed by the Board President; however, the Board President's signature was applied to the checks by the Business Manager using a stamp of the Board President's signature. The Board President did not review the checks before the signature stamp was applied, and he did not manually sign checks. In addition, although Mr. Spiegel prepared a listing of bills to be provided to the Board for approval, the listing did not include payroll disbursements.

As the Business Manager, Mr. Spiegel was also responsible for preparing payroll payments for all District employees, including himself. Payroll was prepared around the fifteenth of each month; however, no independent review or reconciliations of the monthly payroll registers were performed. In addition, payroll rates entered into the District's payroll system by the Business Manager were not reviewed and approved, and employees could be added and/or deleted and pay rates and deductions could be changed without written approval.

Although pre-numbered checks are issued for all disbursements, the check numbers recorded in the District's accounting system did not always agree to the pre-numbered sequence of the actual checks issued. In addition, the bank statements were delivered directly to the Business Manager, and the numerical sequence of checks was not accounted for during the reconciliation process. Unused checks were kept in an unlocked filing cabinet in the Business Manager's office.

In January 2016, the District's independent auditor identified irregularities in payroll and accounts payable. Specifically, certain payroll advances, bonuses, and additional hourly payroll had been processed through the accounts payable system as vendor payments rather than through the payroll system. Several of the payments identified did not appear to be authorized. In addition, the District's independent auditor was concerned the irregularities identified could extend to the beginning of the 2013-2014 school year when Mr. Spiegel was hired.

On January 16, 2016, the Superintendent confronted Mr. Spiegel about the irregularities identified by the District's independent auditor and informed him he would be recommending Mr. Spiegel be terminated at the next Board meeting. At that time, Mr. Spiegel submitted his resignation effective immediately.

On January 18, 2016, the District's independent auditor contacted the Office of Auditor of State regarding the irregularities identified. As a result, the Office of Auditor of State was requested to review the District's financial transactions. We performed the procedures detailed in the Auditor of State's report for the period July 1, 2013 through January 31, 2016.

Detailed Findings

These procedures identified \$52,701.39 of improper and unsupported disbursements. The \$48,862.14 of improper disbursements identified includes \$24,984.17 of payroll issued to Mr. Spiegel, \$13,450.95 of other payments issued to Mr. Spiegel, \$5,803.28 for the District's share of health benefits for Mr. Spiegel, \$3,309.99 for the District's share of FICA and IPERS on the improper payroll, \$1,113.75 for reimbursements for which no supporting documentation was available, and a \$200.00 cash withdrawal.

The \$3,839.25 of unsupported disbursements includes \$2,326.75 of petty cash disbursements, \$1,027.15 of checks redeemed for cash for various reimbursements for which sufficient supporting documentation was not available, and \$485.35 of reimbursements issued to Mr. Spiegel for which sufficient supporting documentation was not available. In addition, it was not possible to determine if additional amounts were improperly disbursed because sufficient records were not readily available. All improper and unsupported disbursements are summarized in **Exhibit A** and a detailed explanation of each finding follows.

IMPROPER AND UNSUPPORTED DISBURSEMENTS

For the period July 1, 2013 through January 31, 2016, we scanned available redeemed checks, or images of checks, issued from the District's checking account and scanned the activity recorded in the District's accounting system. We also compared the payroll disbursements recorded in the payroll register to the employee contracts authorized by the Board for Mr. Spiegel. As a result of these procedures, we identified several unusual disbursements, including unauthorized pay increases and pay advances issued to Mr. Spiegel. We also identified an unusual number of disbursements issued to petty cash and "M-D General Fund," as well as payroll issued to other District employees paid through the accounts payable system rather than the payroll system. The unusual disbursements identified, as well as the unauthorized payroll increases, are discussed in detail in the following paragraphs.

PAYROLL

Unauthorized Payroll – As the Business Manager, Mr. Spiegel was a contract employee and should have been paid only what was approved per the terms of his contract. Based on a review of his employment contracts, Mr. Spiegel received an annual salary and cash in lieu of health insurance payable in monthly installments for 12 consecutive months. Mr. Spiegel was also authorized to receive a certain number of vacation, sick leave, and personal leave days. Upon termination, resignation, or retirement, Mr. Spiegel was entitled to receive a payout of any vacation days earned but not used.

Based on the comparison of the payroll register to Mr. Spiegel's employment contract, we identified the following discrepancies:

- 28 months for which Mr. Spiegel received hourly pay totaling \$20,703.43 in addition to his authorized contract salary. The hourly pay was not approved by the Board, and supporting documentation, such as time sheets, was not maintained. According to Mr. Spiegel, he assumed any extra hours worked were to be paid hourly because the individual training him put extra hours on his first paycheck in July 2013. However, Mr. Spiegel also acknowledged the hourly pay was not approved by the Board or included in the employment contract.
- 8 instances where the contract salary recorded in the payroll register did not agree with the calculated monthly amount based on Mr. Spiegel's employment contract. The total of the 8 instances was a net underpayment of \$1,628.33. According to Mr. Spiegel, he began a salary reduction to pay for health insurance. However, we determined deductions were made for both employee and employer shares of health insurance premiums. No supporting documentation could be located to verify Mr. Spiegel's explanation, and the difference between the contract salary and the salary recorded in the payroll register did not correlate to any payments for health insurance.
- 4 instances where Mr. Spiegel received a pay advance or deducted a "payback advance." In September 2015, Mr. Spiegel included a pay advance totaling \$7,735.48 in the calculation of his monthly payroll; however, that same month Mr. Spiegel also deducted a "payback advance" of \$6,083.46 for a net pay advance of \$1,652.02. It appears the "payback advance" was included to offset 3 checks issued to Mr. Spiegel which were processed through the District's accounts payable system. However, because he also included a pay advance on the September 2015 paycheck, those 3 checks were not offset. The 3 checks identified are discussed in further detail in the "Accounts Payable" section of this report.

In December 2015, Mr. Spiegel received a pay advance of \$2,222.00, and in January 2016, Mr. Spiegel deducted a "payback advance" of \$470.33. The net total of the pay advances and "payback advances" is \$3,403.69.

- 3 instances where Mr. Spiegel received additional pay labeled "pay increases" in the payroll register totaling \$1,951.66 which were not approved by the Board or included in his employment contract.
- 1 instance where Mr. Spiegel received a payout for unused vacation totaling \$505.42 for which Board approval and supporting documentation could not be located.
- 1 instance where Mr. Spiegel received a payout for unused personal leave totaling \$48.30 for which Board approval and supporting documentation could not be located.

Exhibit B lists the authorized and actual salary for Mr. Spiegel for the period July 1, 2013 through January 16, 2016. The total improper payroll identified of \$24,984.17 is included in **Exhibit A** as improper disbursements. In addition, the \$24,984.17 of improper payroll identified resulted in \$1,078.93 and \$2,231.06 of excess FICA and IPERS, respectively. The \$3,309.99 total of FICA and IPERS is summarized in **Exhibit B** and included in **Exhibit A** as improper disbursements.

Health Insurance and HSA – As previously stated, Mr. Spiegel's employment contract included a cash payment to be received in lieu of Mr. Spiegel participating in the District's health insurance program. However, we determined Mr. Spiegel enrolled in a family plan through the District's health insurance package in September 2015 and remained on the District's plan until he was removed on January 31, 2016. In addition, Mr. Spiegel established a health savings account (HSA) in September 2015. Neither of these benefits was approved by the Board or included in Mr. Spiegel's employment contract. According to District officials, if Mr. Spiegel wanted to enroll in the District's health insurance plan, an amendment to his employment contract to eliminate the cash payment should have been approved by the Board. In an interview with Mr. Spiegel, he acknowledged the change was not presented to the Board.

As a result of Mr. Spiegel's participation in the District's health insurance plan and HSA, the District incurred additional health insurance premiums and HSA contributions. **Table 1** summarizes the District's share of the health insurance premiums, as well as the HSA contributions made by the District. Because the benefits identified were not in Mr. Spiegel's approved employment contract, the District's share of the health insurance premiums and HSA contributions of \$5,803.28 are included in **Exhibit A** as improper disbursements.

Table 1

Payroll Date	Insurance Premiums	HSA Contributions	Total
09/15/15	\$ 1,180.82	270.00	1,450.82
10/15/15	1,180.82	270.00	1,450.82
11/13/15	1,180.82	270.00	1,450.82
12/15/15	1,180.82	270.00	1,450.82
Total	\$ 4,723.28	1,080.00	5,803.28

ACCOUNTS PAYABLE

Payments Issued to Mr. Spiegel – As previously stated, we reviewed all payments issued to Mr. Spiegel through the accounts payable system for the period July 1, 2013 through January 31, 2016 to determine if the disbursements appeared proper and had sufficient supporting documentation. As a result, we identified 15 checks issued to Mr. Spiegel, totaling \$13,936.30, which are listed in **Exhibit C**. Of the 15 checks identified, 11 checks and a portion of a 12th check were improper. The 11 improper checks are identified in **Exhibit C** along with the \$1,179.43 portion of check number 33384 issued on September 21, 2015 for a payroll advance. Total improper disbursements identified of \$13,450.95 are included in **Exhibit A**.

Of the checks identified as improper, 7 were payroll advances which total \$11,673.64, including the portion of check number 33384. In accordance with District policy, the prepayment or advance of payroll is prohibited. In addition, according to an Attorney General's opinion dated July 12, 1979, the credit of the State or its political subdivisions cannot be extended except for a public purpose, or to fulfill or liquidate a moral or legal obligation incurred by the State or its political subdivisions. We also determined 2 of the improper checks listed in **Exhibit C** were additional payroll or corrections to payroll totaling \$1,177.31. Because the 9 checks related to payroll were processed through the District's accounts payable system rather than the payroll system, they were not included on Mr. Spiegel's W-2 form and did not have payroll taxes withheld.

The remaining 3 checks were reimbursements for cell phone expenses totaling \$600.00. None of these reimbursements were approved by the Board, and there was no provision in Mr. Spiegel's employment contract for the reimbursement of monthly cell phone expense.

We also identified 3 checks issued to Mr. Spiegel totaling \$403.43 for which sufficient supporting documentation could not be located. In addition, check number 33384 issued September 21, 2015, included \$81.92 for a mileage reimbursement for which no supporting documentation could be located. The \$485.35 of unsupported disbursements identified are included in **Exhibit A**.

Payments Issued to the District's General Fund – As previously stated, we scanned the available redeemed checks, or images of checks, issued from the District's checking account. As a result, we identified 16 checks issued to "M-D General Fund" which were subsequently endorsed and redeemed for cash by Mr. Spiegel. A copy of a redeemed check endorsed by Mr. Spiegel is included in **Appendix 1**. The 16 checks identified are listed in **Exhibit D** and included the following:

- 6 issued for mileage reimbursement for the former Spanish teacher totaling \$991.85,
- 4 issued for petty cash/change fund replenishment totaling \$674.42,
- 4 issued for reimbursements totaling \$1,113.75,
- 1 issued for a credit card reimbursement for the Athletics Department totaling \$87.98, and
- 1 issued for a reimbursement for mileage to a conference totaling \$50.56.

Of the 16 checks identified, supporting documentation could not be located for 6 payments totaling \$1,027.15, which are included in **Exhibit A** as unsupported disbursements. In addition, the 4 reimbursements totaling \$1,113.75 and a payment for the elementary school fun night totaling \$200.00 are improper. As a result, \$1,313.75 is included in **Exhibit A** as improper disbursements.

The former Spanish teacher was shared with another community school district, and according to her employment contract, she was authorized to receive reimbursement for the miles driven between schools. We were able to locate supporting documentation for 5 of the 6 checks issued for the Spanish teacher’s mileage. However, a reimbursement totaling \$414.19 did not have supporting documentation. As a result, we were unable to determine the propriety of the payment. According to the Superintendent and current Business Manager, Mr. Spiegel redeemed the checks issued for the Spanish teacher’s mileage and paid her in cash if she did not have time to go to the bank. In an interview with Mr. Spiegel, he stated the Spanish teacher would often approach him saying she did not have enough money to pay for gas to get home, but she did not have time to go to the bank because of her classes. Mr. Spiegel further stated he would then go to the bank and redeem a check to pay her in cash.

The 4 payments recorded in the District’s accounting system as petty cash or change fund replenishments and their respective descriptions recorded in the accounts payable system are listed in **Table 2**. Supporting documentation could not be located for the 4 payments identified. In addition, we determined a proper payment for the elementary school fun night was issued from the District’s Activity Fund. According to the District’s current Business Manager, she was not aware there was a petty cash fund and has not needed to use petty cash since she started.

Table 2

Check Date	Check Number	Description per Accounts Payable Listing	Amount
01/22/15	32843	Stamps for 1099’s & W-2’s	\$ 100.00
04/14/15	33032	Reimburse Petty Cash – Postage	24.42
08/04/15	33285	Change for Registration	350.00
10/23/15	33497	Elem Fun Night	200.00
Total			<u>\$ 674.42</u>

We also were unable to locate supporting documentation the 4 transactions recorded as reimbursements totaling \$1,113.75. In addition, no description was recorded in the District’s accounts payable system. We also were unable to locate supporting documentation for the \$87.98 Athletics Department reimbursement or the \$50.56 conference mileage reimbursement. As a result, we are unable to determine the propriety of the payments.

Payments Issued to “Iowa State Bank/Business Manager” – As previously stated, we scanned the available redeemed checks, or images of checks, issued from the District’s checking account. As a result, we identified 23 checks issued to “Iowa State Bank/Business Manager” totaling \$2,826.00, which were recorded in the District’s accounting system as petty cash replenishments. We were able to locate the petty cash bag in a filing cabinet in the Business Manager’s office, which

contained 18 receipts totaling \$498.87 and \$0.38 in coins. We were unable to determine the authorized petty cash amount. In addition, as previously stated, the District's current Business Manager stated she was not aware there was a petty cash fund and has not needed to use petty cash since she started.

The 23 checks identified are listed in **Exhibit E. Table 3** summarizes the petty cash disbursements, receipts located in the petty cash bag, and petty cash on hand for the period reviewed. The 18 receipts included in the petty cash bag were dated between January 11, 2013 and July 13, 2015. To be conservative, we are subtracting the entire \$498.87 for which receipts could be located even though certain receipts were dated prior to Mr. Spiegel's hiring. Because sufficient supporting documentation could not be located for \$2,326.75 of the \$2,826.00 identified, this amount is included in **Exhibit A** as unsupported disbursements.

Table 3

Description	Amount
23 checks identified	\$ 2,826.00
Less:	
Receipts located	(498.87)
Petty cash on hand	(0.38)
Total	\$ 2,326.75

OTHER ADMINISTRATIVE ISSUES

Payments Issued to Other Employees – As previously stated, the District's independent auditor identified irregularities in payroll and accounts payable. We reviewed the information compiled and verified there were 55 checks issued to District employees other than Mr. Spiegel which should have been processed through the District's payroll system rather than the accounts payable system. Because these checks were processed through the District's accounts payable system, they were not properly included on the employees' W-2 forms and were not subject to payroll tax withholdings. With the assistance of the District's independent auditor, corrected W-2 forms have been prepared for distribution to District employees. However, District officials are unable to determine what, if any, penalty may be incurred as a result of the errors.

Of the 55 checks identified, 4 were issued to the District employees for pay advances, totaling \$3,567.60, which are not in compliance with the District's policy or an Attorney General's opinion dated July 12, 1979. The 4 checks identified are listed in **Table 4**. Although these transactions were not properly processed, the 55 checks identified are not included in **Exhibit A** as improper disbursements because the District did not issue any amounts in excess of what was owed to the employees.

Table 4

Per Check			Description per Accounts Payable Listing
Check Date	Check Number	Check Amount	
04/28/15	33040	\$ 1,202.70	Advance-SB
08/14/15	33292	1,000.00	Advance
09/15/15	33381	1,314.90	Sept pay advance
01/07/16	33640	50.00	Payroll Advance
Total		\$ 3,567.60	

During fieldwork, we determined Mr. Spiegel processed the corresponding payroll checks for check numbers 33040 and 33381; however, the payroll checks were never distributed to the employees. We located them in a desk drawer in the current Business Manager's office. They were signed but were never redeemed and still appeared as outstanding checks as of March 15, 2016. In addition, we determined the \$50.00 pay advance issued in January 2016 was deducted as a "payback advance" on the January 2016 payroll check.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the Melcher-Dallas Community School District to perform bank reconciliations and process disbursements and payroll. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from errors and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the District's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former Business Manager/Board Secretary/Treasurer had control over each of the following areas.
- (1) Petty cash – custody, replenishment, and reconciling the disbursements to the reimbursements;
 - (2) Disbursements – making certain purchases, receiving certain goods and services, presenting proposed disbursements to the Board for approval, maintaining supporting documentation, preparing, signing, and distributing checks, and posting to the accounting records;
 - (3) Payroll – calculating payroll amounts, preparing, signing, and distributing checks, and posting payments to the accounting records;
 - (4) Bank accounts – receiving and reconciling monthly bank statements to accounting records; and
 - (5) Reporting – preparing information for the monthly Board meetings, including agendas, information packets for the Board members, financial reports, bill listings, and other information, as needed. In addition, attending all Board meetings, recording minutes of the meetings, and preparing and publishing all legal notices concerning District business, including Board meeting minutes.

In addition, bank statements were delivered directly to the Business Manager without any independent review.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the functions listed above should be segregated among available personnel, including elected officials. In addition, the Superintendent and/or Board members should review financial records, perform reconciliations, and examine supporting documentation for accounting records on a periodic basis.

Also, bank statements should be delivered to an official who does not collect or disburse District funds. The bank statements should be reviewed in a timely manner for unusual activity. Bank reconciliations should be performed monthly and should be reviewed by someone independent of other financial responsibilities. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

- B. Accountability of Checks – Pre-numbered checks are issued for each disbursement paid by the District; however, check numbers entered in the accounting system did not always match the pre-numbered sequence of the actual checks issued. In addition, the numerical sequence of checks used was not accounted for.

Also, unused checks are kept in an unlocked filing cabinet in the Business Manager’s office and voided checks are kept with the bank statements. During our testing, several undistributed issued checks were found in the Business Manager’s office, all of which should have been properly voided.

Recommendation – The District should ensure the pre-numbered checks issued are properly recorded in the accounting system, and the numerical sequence of issued and unissued checks should periodically be accounted for. All unused and voided checks should be properly maintained and secured. Also, checks outstanding for a considerable time should periodically be reviewed for propriety by the District.

- C. Petty Cash – Although there was a petty cash fund in the Business Manager’s office, we could not find authorization for the petty cash fund or establishment of an authorized amount. The petty cash fund was also not replenished using an imprest system as the periodic checks issued to “Iowa State Bank/Business Manager” could not be matched up to corresponding receipts.

Recommendation – The Board should determine whether a petty cash fund is necessary for District operations. If so, the Board should develop and implement policies and procedures for the proper use of petty cash and the supporting documentation required. Any petty cash should be maintained on an imprest basis. In addition, the petty cash fund should be verified by surprise counts periodically by someone other than the custodian.

- D. Disbursements – During our review of the District’s disbursements, the following were identified:

- (1) Disbursements were not always supported by invoices or other documentation,
- (2) Not all disbursements were approved by the Board,
- (3) Although District checks require dual signatures, the Business Manager maintained a signature stamp to apply the Board President’s signature during check preparation, and
- (4) Certain reimbursements were issued to the District’s General Fund and redeemed for cash rather than being issued directly to the employee.

Recommendation – All District disbursements should be approved by the Board prior to payment, with the exception of those specifically allowed by a Board approved policy. All payments should be supported by adequate documentation, including receipts and invoices for the goods and services provided. For those disbursements paid prior to Board approval, a listing should be provided to the Board at the next Board meeting for review and approval. In addition, reimbursements should be issued directly to the employee rather than to the District’s General Fund and redeemed for cash.

To strengthen internal control, each check should be prepared and signed by one person, and detailed supporting vouchers and invoices should be provided, along with the check, to a second independent person for review, approval, and signature. Also, the Business Manager should not have access to the Board President’s signature stamp.

E. Payroll – During our review of the District’s payroll, the following concerns were identified:

- (1) Payroll was not approved in the Board meeting minutes,
- (2) Payroll rates entered into the payroll system for new and existing employees were not reviewed and approved for accuracy by an independent person,
- (3) Employees could be added and/or deleted from payroll and pay rates and deductions could be changed without written approval,
- (4) Procedures were not in place to ensure employees did not receive more than their authorized salary amount, and
- (5) Certain employees received payroll advances which were not in compliance with District policy and an Attorney General’s opinion dated July 12, 1979 and were not approved by the Board.

Recommendation – The District should ensure payroll checks are included in the disbursement listing approved by the Board. After employment contracts have been approved, an independent person should review the new rates entered into the payroll system, and the payroll register should be reviewed and approved by an independent person each month to ensure employees are being paid per approved contracts and are not receiving any payroll advances. Also, employee additions and deletions and changes in pay rates and deductions should be approved in writing prior to being entered in the payroll system.

F. Accounts Payable – The District’s independent auditor compiled a list of disbursements which should have been issued through the District’s payroll system rather than the accounts payable system. The 65 disbursements identified included 10 issued to Mr. Spiegel and 55 issued to other District employees. We reviewed and verified the completeness and accuracy of the list. Because these checks were not processed through payroll, the proper payroll taxes were not withheld and remitted for these disbursements.

With the assistance of the District’s independent auditor, corrected W-2 forms have been prepared for distribution to District employees. However, District officials are unable to determine what, if any, penalty may be incurred as a result of the errors.

Recommendation – The District should implement procedures to ensure all payroll obligations are processed through the District’s payroll system and the proper payroll taxes are withheld and remitted.

Exhibits

Report on Special Investigation of the
Melcher-Dallas Community School District

Summary of Findings
For the period July 1, 2013 through January 31, 2016

Description	Exhibit/ Table	Improper	Unsupported	Total
Improper and unsupported disbursements:				
Payroll issued to Nathan Spiegel	Exhibit B	\$24,984.17	-	24,984.17
District's share of FICA and IPERS	Exhibit B	3,309.99	-	3,309.99
District's share of benefits for Nathan Speigel	Table 1	5,803.28	-	5,803.28
Other payments issued to Nathan Spiegel	Exhibit C	13,450.95	485.35	13,936.30
Payments issued to the District's General Fund	Exhibit D	1,313.75	1,027.15	2,340.90
Payments issued to petty cash	Table 3	-	2,326.75	2,326.75
Total improper and unsupported disbursements		<u>\$48,862.14</u>	<u>3,839.25</u>	<u>52,701.39</u>

Report on Special Investigation of the
Melcher-Dallas Community School District

Improper Salary for Nathan Spiegel
For the period July 1, 2013 through January 31, 2016

Payroll Date	Salary							Total
	Authorized	Contract	Hourly	Pay Advance	Pay Increase	Personal Leave Payout	Vacation Payout	
07/15/13	\$ 4,186.67	4,186.67	108.68	-	-	-	-	4,295.35
08/15/13	4,186.67	4,186.67	193.20	-	-	-	-	4,379.87
09/13/13	4,186.67	4,186.67	694.31	-	-	-	-	4,880.98
10/15/13	4,186.67	4,186.67	609.79	-	-	-	-	4,796.46
11/15/13	4,186.67	4,186.67	670.16	-	-	-	-	4,856.83
12/13/13	4,186.67	4,186.67	688.28	-	-	-	-	4,874.95
01/15/14	4,186.67	4,186.67	694.31	-	-	-	-	4,880.98
02/14/14	4,186.67	4,186.67	851.29	-	-	-	-	5,037.96
03/14/14	4,186.67	4,186.67	893.55	-	-	-	-	5,080.22
04/15/14	4,186.67	4,186.67	778.84	-	-	-	-	4,965.51
05/15/14	4,186.67	4,186.67	1,032.41	-	-	-	-	5,219.08
06/13/14	4,186.67	4,186.63	718.46	-	-	-	-	4,905.09
07/15/14	4,186.67	4,186.67	694.31	-	-	-	-	4,880.98
08/15/14	4,186.67	4,186.67	724.50	-	-	-	-	4,911.17
09/15/14	4,186.67	4,186.67	539.65	-	-	-	-	4,726.32
10/15/14	4,186.67	4,186.67	702.80	-	-	48.30	505.42	5,443.19
11/14/14	6,014.43	4,186.67	772.80	-	1,827.76	-	-	6,787.23
12/15/14	4,186.67	4,186.67	795.29	-	-	-	-	4,981.96
01/15/15	4,186.67	4,186.67	696.53	-	-	-	-	4,883.20
02/13/15	4,186.67	4,186.67	-	-	-	-	-	4,186.67
03/13/15	4,186.67	4,186.67	771.83	-	-	-	-	4,958.50
04/15/15	4,186.67	4,186.67	1,273.83	-	-	-	-	5,460.50
05/15/15	4,186.67	4,186.67	376.50	-	-	-	-	4,563.17
06/15/15	4,186.67	4,186.67	1,004.00	-	151.66	-	-	5,342.33
07/15/15	4,687.81	4,259.82	-	-	-	-	-	4,259.82
08/14/15	4,687.81	4,259.82	937.38	-	-	-	-	5,197.20
09/15/15	4,687.81	4,259.82	737.50	1,652.02	**	-	-	6,649.34

FICA and IPERS			
Improper	Calculated^	Actual	Improper
108.68	694.15	712.16	18.01
193.20	694.15	726.18	32.03
694.31	694.15	809.26	115.11
609.79	694.15	795.25	101.10
670.16	694.15	805.25	111.10
688.28	694.15	808.27	114.12
694.31	694.15	809.26	115.11
851.29	694.15	835.29	141.14
893.55	694.15	842.29	148.14
778.84	694.15	823.28	129.13
1,032.41	694.15	865.32	171.17
718.42	694.15	813.26	119.11
694.31	694.15	809.26	115.11
724.50	694.15	814.27	120.12
539.65	694.15	783.62	89.47
1,256.52	694.15	902.49	208.34
772.80	997.19	1,125.32	128.13
795.29	694.15	826.01	131.86
696.53	694.15	809.64	115.49
-	694.15	694.15	-
771.83	694.15	822.12	127.97
1,273.83	694.15	905.35	211.20
376.50	694.15	756.58	62.43
1,155.66	694.15	885.75	191.60
(427.99)	777.24	706.28	(70.96)
509.39	777.24	861.70	84.46
1,961.53	777.24	1,095.53	318.29

Report on Special Investigation of the
Melcher-Dallas Community School District

Improper Salary for Nathan Spiegel
For the period July 1, 2013 through January 31, 2016

Payroll Date	Authorized	Salary				Personal		Total
		Contract	Hourly	Pay Advance	Pay Increase	Leave Payout	Vacation Payout	
10/15/15	4,687.81	4,259.82	454.91	-	300.00	-	-	5,014.73
11/13/15	4,687.81	4,146.02	1,089.02	-	1,500.00	-	-	6,735.04
12/15/15	4,687.81	3,828.59	1,199.30	2,222.00	-	-	-	7,249.89
01/15/16	2,343.91 #	3,828.59	-	(470.33)	-	-	-	3,358.26
Total	\$ 132,778.61	129,322.52	20,703.43	3,403.69	3,779.42	48.30	505.42	157,762.78

- Because Mr. Spiegel resigned effective January 16, 2016, the authorized salary shown is half the authorized monthly amount.

** - Mr. Spiegel processed both pay advances and payback advances through payroll. For this paycheck, both a pay advance and a payback advance of \$7,735.48 and \$6,083.46, respectively, were processed. The amount shown represents the net amount.

^ - The calculated FICA and IPERS is based on Mr. Spiegel's authorized salary.

FICA and IPERS			
Improper	Calculated^	Actual	Improper
326.92	777.24	824.51	47.27
2,047.23	777.24	1,109.73	332.49
2,562.08	777.24	647.42	(129.82)
1,014.35	388.62	299.89	(88.73)
<u>24,984.17</u>	<u>22,014.70</u>	<u>25,324.69</u>	<u>3,309.99</u>

Report on Special Investigation of the
Melcher-Dallas Community School District

Improper and Unsupported Payments Issued to Nathan Spiegel
For the period July 1, 2013 through January 31, 2016

Per Check			Description per Accounts Payable Listing
Check Date	Check Number	Amount	
07/31/13	31549	\$ 225.00	BOEE Registration
10/02/13	31682	200.00	Cell Phone Reimburse
11/07/13	31779	100.00	Reimburse
01/29/14	31968	300.00	Reimburse
02/10/14	10010	40.00	Ticket Taker
03/03/14	32029	941.85	Correct Pay
03/14/14	32099	235.46	Correction
04/22/15	33038	138.43	Academy Mileage Reimbursement
07/01/15	33227	3,832.26	FY 2016 Negotiations
07/21/15	33282	1,814.40	July Prepay
08/26/15	33356	1,036.80	Prepay
09/21/15	33384 *	1,261.35	Advance/Mileage
10/07/15	33430	938.12	Advance
11/02/15	33498	952.82	Nov. Prepay
11/25/15	33572	1,919.81	Prepay
Total		<u>\$13,936.30</u>	

* - Per the District's accounting system, the total of \$1,261.35 was recorded as \$1,179.43 for an advance and \$81.92 for mileage.

Description per Supporting Documentation	Improper	Unsupported
<i>None</i>	\$ -	225.00
<i>None</i>	200.00	-
<i>None</i>	100.00	-
Phone Reimbursement (6 months x 50.00)	300.00	-
<i>None</i>	-	40.00
Reimburse Taxes on \$\$ in Lieu	941.85	-
9.75 hrs x \$24.15/hr (worked PL day)	235.46	-
3 Day Academy - ISU (432.6 miles x 0.32/mile)	-	138.43
FY '16 Increase (Negotiations) Taken From Sept. Payroll	3,832.26	-
To be reimbursed on Sept. 15, 2015 paycheck	1,814.40	-
Reimbursed from ✓ on 9/15/15	1,036.80	-
<i>None</i>	1,179.43	81.92
<i>None</i>	938.12	-
<i>None</i>	952.82	-
<i>None</i>	1,919.81	-
	<u>\$ 13,450.95</u>	<u>485.35</u>

Report on Special Investigation of the
Melcher-Dallas Community School District

Improper and Unsupported Payments Issued to M-D General Fund
For the period July 1, 2013 through January 31, 2016

Per Check			Description per Accounts Payable Listing
Check Date	Check Number	Amount	
09/08/14	32465	\$ 186.53	Cash to cover Spanish teacher mileage
09/11/14	32467	27.83	Spanish teacher mileage
09/26/14	32542	98.71	Spanish teacher mileage
10/27/14	32619	50.56	Mileage for conference
11/03/14	32620	100.00	Spanish teacher mileage
11/25/14	32712	300.00	Reimbursement
12/08/14	32717	213.75	Reimburse fees
12/08/14	32719	300.00	Reimburse
01/12/15	32781	300.00	Reimburse
01/22/15	32843	100.00	Stamps for 1099's & W-2's
03/04/15	32917	414.19	Spanish teacher mileage
04/09/15	33010	164.59	Spanish teacher mileage reimbursement
04/14/15	33032	24.42	Reimburse petty cash - postage
08/04/15	33285	350.00	Change for registration
10/15/15	33451	87.98	Credit card reimburse from Athletics
10/23/15	33497	200.00	Elem Fun Night
Total		<u>\$2,918.56</u>	

	Reasonable	Improper	Unsupported
\$	186.53	-	-
	27.83	-	-
	98.71	-	-
	-	-	50.56
	100.00	-	-
	-	300.00	-
	-	213.75	-
	-	300.00	-
	-	300.00	-
	-	-	100.00
	-	-	414.19
	164.59	-	-
	-	-	24.42
	-	-	350.00
	-	-	87.98
	-	200.00	-
\$	<u>577.66</u>	<u>1,313.75</u>	<u>1,027.15</u>

Exhibit E

Report on Special Investigation of the
Melcher-Dallas Community School District

Unsupported Petty Cash Disbursements
For the period July 1, 2013 through January 31, 2016

Per Check			Description per Accounts Payable Listing
Check Date	Check Number	Amount	
08/14/13	31567	\$ 40.00	Petty Cash
08/23/13	31608	50.00	Petty Cash
09/19/13	31677	50.00	IPERS/Medicaid Mailers
10/03/13	31683	60.00	Replenish Petty Cash
10/15/13	31711	60.00	Personnel Concepts/Health Care/Pay Stubs
10/28/13	31775	60.00	Mail Audit Info
11/20/13	31844	60.00	Timberline Mailers
12/13/13	31867	60.00	Petty Cash
12/19/13	31905	100.00	Seasonals
01/30/14	31969	90.00	1099 & 43(b) Notices to ALL
02/07/14	31970	196.00	Newsletter Postage
03/11/14	32035	100.00	Petty Cash
03/14/14	32098	200.00	Petty Cash
05/23/14	32243	150.00	Petty Cash
07/24/14	32349	750.00	Registration - Elementary & High School (<i>\$600.00</i>) / Petty Cash (<i>\$150.00</i>)
08/11/14	32407	100.00	Petty \$, Mail boxes/transcripts, start yr.
12/01/14	32713	100.00	Petty Cash
02/05/15	32857	100.00	Petty Cash
04/09/15	33009	100.00	Petty Cash
06/09/15	33163	100.00	Petty Cash - Summer
09/11/15	33361	100.00	Petty Cash
09/21/15	33383	100.00	Petty Cash
10/23/15	33495	100.00	Petty Cash
Total		<u>\$2,826.00</u>	

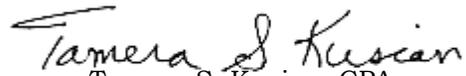
Note: Auditor's notations are in italics.

Report on Special Investigation of the
Melcher-Dallas Community School District

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Jennifer Campbell, CPA, Manager
Kaylynn D. Short, CPA, Senior Auditor
Erin J. Sietstra, Staff Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendix

Report on Special Investigation of the
Melcher-Dallas Community School District

Copy of a Redeemed Check Endorsed by Nathan Spiegel

MELCHER-DALLAS COMMUNITY SCHOOL, DIST.
P.O. Box 489
Melcher-Dallas, IA 50163

General Fund

DATE 32542
09/26/2014

PAY - Money Eight And 71/100 Dollars *

AMOUNT \$8.71

IOWA STATE SAVINGS BANK
Keosauqua, IA 50138

TO THE ORDER OF
M-D GENERAL FUND
PO BOX 489
MELCHER IA 50163

Roger Leiby
Nathan Spiegel

SECURITY FEATURES INCLUDED DETAILS ON BACK

⑆03 254 2⑆ [REDACTED] 00 021 2⑆

32542 \$98.71 9/26/2014

2014-09-26

IOWA STATE SAVINGS BANK

SEP 26 2014

Iowa State Savings Bank
Melcher
2014-09-26

Nathan Spiegel

32542 \$98.71 9/26/2014