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STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE January 30, 2017

Auditor of State Mary Mosiman today released a reaudit report on the Central City Community School District (District) for the period July 1, 2014 through June 30, 2015. The reaudit was performed at the request of petitioners pursuant to Section 11.6(4)(a)(3) of the *Code of Iowa*.

Mosiman recommended the District establish procedures to ensure financial information is provided to the Board of Education monthly. The District should establish procedures to ensure special education expenditures are allowable per Chapter 256B of the *Code of Iowa* and Section 281, Chapter 41 of the Iowa Administrative Code. In addition, teacher salary supplemental distribution should be accurate and complete.

The District responded favorably to the recommendations included in the reaudit report. A copy of the reaudit report was filed with the Iowa Department of Education for its review and information.

A copy of the reaudit report is available for review in the District's Office, on the Auditor of State's website at <https://auditor.iowa.gov/reports/1530-1089-T00Z>, and in the Office of Auditor of State.

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CENTRAL CITY COMMUNITY SCHOOL DISTRICT
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Report on Reaudit	5-6
Detailed Findings:	<u>Finding</u>
Bank Reconciliations	A 8
Board of Education Meeting Minutes	B 9
Special Education Supplement to the Certified Annual Report	C 9
Unallowable Special Education Expenditures	D 10
Excess Teacher Salary Supplemental Balances	E 10-11
Questionable Expenditures	F 11-12
Special Education Program Financial Position	G 12
Staff	13

Central City Community School District

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
John Betzer	Board President	2017
Craig Martinson	Board Vice-President	2015
Leanna Palmer	Board Member	2015
Christy Arthur	Board Member	2017
Shelly Kellogg	Board Member	2017
School Officials		
Tim Cronin	Superintendent	Indefinite
Karla Hogan	District Secretary/Treasurer and Business Manager (Resigned September 2014)	
Ashley Ratliff (Appointed September 2014)	District Treasurer and Business Manager	Indefinite
Margaret Mulvaney (Appointed September 2014)	District Secretary	Indefinite
Brian Gruhn	Attorney	Indefinite

Central City Community School District



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Auditor of State's Report on Reaudit

To the Board of Education of the
Central City Community School District:

We received a request to perform a reaudit of the Central City Community School District (District) in accordance with Section 11.6(4)(a)(3) of the *Code of Iowa*. As a result, we performed a review of the audit report for the year ended June 30, 2015 and the workpapers prepared by the District's Certified Public Accounting firm to determine whether the CPA firm addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the District. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the District for the period July 1, 2014 through June 30, 2015 to determine if a deficit balance exists.


The procedures we performed are summarized as follows:

1. Reviewed the fiscal year 2014-2015 Special Education Supplement (SES) report to the Iowa Department of Education (IDOE) to determine whether reported expenditures were supported by the District's general ledger and also reviewed the special education balance at June 30, 2015 to determine if a deficit balance exists.
2. Reviewed fiscal year 2014-2015 Board of Education minutes to determine whether monthly financial reports were provided and included with the minutes and whether the minutes were published as required by Chapter 279.35 of the *Code of Iowa*.
3. Obtained a listing of teachers receiving salary supplemental payments and determined whether the payments were approved by the Board of Education.
4. Examined selected disbursements including professional licensure and college courses to determine their propriety and whether appropriate documentation was available.
5. Examined certain special education disbursements to determine their propriety and whether appropriate supporting documentation was available.
6. Examined vocational agriculture education and Future Farmers of America (FFA) disbursements to determine their propriety and whether appropriate documentation was available.
7. Determined whether the District prepared and filed the fiscal year 2014-2015 annual financial report as required by Chapter 279.63 of the *Code of Iowa*.

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

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 District, 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 Iowa Department of Education for its review and information.

We would like to acknowledge the assistance extended to us by personnel of the District during the course of the reaudit.


MARY MOSIMAN, CPA
Auditor of State

October 12, 2016

Detailed Findings

Central City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

We received a written request to conduct a reaudit of the District for fiscal year 2015. The request detailed specific concerns, including:

- The School Board did not receive monthly financials from its business office for the entire year although minutes approved and published showed they did.
- Additional teacher salary supplemental payments made to the teachers were not approved by the Board of Education.
- Possible expenses not meeting the definition of public purpose, such as paying for the Board of Education Examiners licenses of staff, possible college courses for staff along with others that the community may not even know about.
- Special education deficit spending concerns.
- The annual financial report must be made public but after several attempts this information has not been given to citizens requesting such information nor has it been published on the website. The *Code of Iowa* states monthly receipts, disbursements and balances will be in a complete statement and open for public inspection, but several requests have been made and not allowed.
- Overspending of the budget which the Board did not know about at the time.
- Uncertainty of where the District is financially at this point in time.
- Excess spending in the capital projects fund.

As a result of the requests, we performed a review of the District's audit report and workpapers prepared by the District's independent auditors to determine whether a complete or partial reaudit of the District should be performed. As a result of this review, we determined it was necessary to perform reaudit procedures for the first 5 of 8 concerns presented. The remaining concerns were either outside the scope of the reaudit, were sufficiently reviewed by the District's independent auditors, or were not considered to be a concern.

Except as noted, all items included in the request for reaudit have been resolved. While the reaudit procedures performed addressed 5 concerns presented, additional procedures were not performed. Had we performed additional procedures, additional matters might have been identified and included in this report.

(A) Bank Reconciliations – Bank accounts are not reconciled promptly at the end of each month, including resolving variances between book and bank balances. Bank reconciliations are not reviewed by an independent person.

Recommendation – Bank reconciliations should be prepared on a monthly basis. Variances between book and bank balances should be investigated and resolved in a timely manner. Bank reconciliations should be reviewed by an independent person. The independent reviewer should document their review by signing or initialing and dating the monthly reconciliations.

Response – The bank statements are now being prepared monthly and have been prepared monthly since the spring of 2015.

Conclusion – Response accepted.

Central City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

- (B) Board of Education Meeting Minutes – According to the Business Manager, monthly financial information was not provided to the Board of Education during fiscal year 2015 as required by Chapter 291.7 of the *Code of Iowa*. The Business Manager said she did not provide monthly financial statements, as did the previous Business Manager, because she was learning the position and fell behind. Also, the minutes erroneously documented Board of Education approval of the monthly financial reports.

Also, a copy of all meeting minutes was not furnished to the official newspaper within two weeks following adjournment of the Board, as required by Chapter 279.35 of the Code of Iowa.

Recommendation – The District should establish procedures to ensure a complete statement of all receipts, disbursements and remaining balances from each individual fund is provided monthly to the Board of Education as required.

Also, a copy of the meeting minutes should be furnished to the official newspaper within two weeks of adjournment of the Board, as required.

Response – A complete statement of all receipts, disbursements and remaining balances from each individual fund is now provided monthly to the Board of Education. Board of Education meeting minutes are now being provided to the local paper within a week of the meeting.

Conclusion – Response accepted.

- (C) Special Education Supplement to the Certified Annual Report – We compared the Special Education Supplement (SES) to the Certified Annual Report and to the District's general ledger for the year ended June 30, 2015 and identified the following:

- Level 1 salaries reported on the SES were \$8,778 higher than reported on the District's general ledger. The general ledger included an \$8,778 adjustment which the District's Business Manager could not explain.
- Level 3 salaries reported on the SES were \$22,344 higher than reported on the District's general ledger. The general ledger included adjustments of \$8,360 and \$13,984 which the District's Business Manager could not explain.

Recommendation – The District should establish procedures to ensure all special education program expenditures are properly recorded in the District's general ledger and included in the SES to the Certified Annual Report.

Response – The District will add in measures to cross reference salary reports, including an account inquiry report on the different levels of special education.

Conclusion – Response accepted.

Central City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

- (D) Unallowable Special Education Expenditures – State requirements pertaining to special education programs and related activity, including allowable uses of special education funds, are provided in Chapter 256B of the *Code of Iowa* and Section 281, Chapter 41 of the IDOE Administrative Rules. In general, based on these requirements, expenditures for special education must meet the following criteria:
- The costs must be supported by an applicable special education student’s Individualized Education Program (IEP).
 - Costs must cover the excess costs of instruction of children requiring special education above the costs of instruction of pupils in a regular curriculum.

We reviewed 13 expenditures recorded in the District’s special education program during the period from July 1, 2014 through June 30, 2015 and identified the following expenditures which were not supported by an IEP and do not represent costs in excess of the cost of instruction of pupils in a regular curriculum:

Paid to	Date Paid	Purpose	Amount
Montana's Restaurant	January 22, 2015	Pizza - behavior reward	\$ 21
CDW	February 25, 2015	Laptop bag	35
CDW	March 25, 2015	Laptop, parts, warranty	750
CDW	June 25, 2015	10 Computers	4,359

Recommendation – The District should establish procedures to ensure all special education program expenditures are in accordance with IDOE requirements.

Response – Before purchasing items that require special education funds, the District will consult with student’s IEP to verify that expenses are allowable. If there are questions the District will seek advice from the Department of Education and/or the current auditing firm.

Conclusion – Response accepted.

- (E) Excess Teacher Salary Supplemental Balances – Teacher Salary Supplement (TSS) funds are determined by the Iowa Department of Management and distributed to schools for distribution according to Chapter 284.3A of the *Code of Iowa*. Beginning July 1, 2009, the Iowa Legislature combined the student achievement and teacher quality program and Phase II program into the TSS. For fiscal year 2015, the District received \$284,388.

According to the District’s Superintendent, in November 2014 he discovered they had an excess TSS balance and on December 15, 2014, the Board approved distribution of the \$18,865 in excess TSS funds. Because the Business Manager was no longer employed at the District, the District is unsure how the excess occurred. The District distributed the excess funds equally based on FTE.

TSS money is added to teacher base salaries and becomes part of teacher negotiated contracts. However, when the excess TSS was distributed, the District’s Superintendent explained to the teachers the Board made this one-time payment as a gesture of appreciation for the teaching staff and as a sign of the Board’s desire for continued positive communications in teacher contract negotiations.

Central City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

Recommendation – The District should establish procedures to ensure TSS distribution is accurate and complete. The District should also ensure excess distributions are communicated in a manner reflecting the nature of the distribution.

Response – The new procedures in the District are to report out the Teacher’s Salary Supplement amount to the Board of Education at the November meeting. If there is a fund balance that exceeds the negotiated agreement amount it is then added onto the December payroll. This will be reported as an information item and not as a board vote.

Conclusion – Response accepted.

(F) Questionable Expenditures – Certain expenditures were identified which may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Scooters	Lunch for staff	\$ 142
Montana's Restaurant	Food for elementary teachers and PLC teachers	258
Lindale Crossing	Bagels for staff	44
Lindale Crossing	Bagels for staff	42
Lindale Crossing	Bagels for staff	14
Hy-Vee	Donuts for staff	30
Lindale Crossing	Food for staff	42
Lindale Crossing	Bagels	56
Hy-Vee	Treats for staff	40
Montana's Restaurant	Food for site visit	267
Hometown Market	Treats for site visit	19
Hy-Vee	Treats for site visit	64
Hy-Vee	Treats for site visit	62
Jules Bakery	Treats for secretaries	46
Hometown Market	Food for site visit	129
Hy-Vee	Flowers for funeral	50
First Bankcard	Late fee	37

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Also, a list of invoices for approval were not attached to the minutes for July 2014 through October 2014 and for months where the minutes included a list of invoices, certain First Bankcard transactions were not included on the list.

Finally, the transaction for \$267 to Montana’s Restaurant was not on the voucher document signed by the Board President and was not included on the list of invoices submitted to the Board of Education.

Central City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

Recommendation – The Board of Education should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the District should establish written policies and procedures, including the requirement for proper documentation.

Also, the District should establish procedures to ensure all receipts/invoices are included on the list of invoices for Board approval.

Response – The District will review procedures and policies for public purpose of funds. The District has changed procedure and now reports credit card transactions in the board invoices monthly and all expenditures are included on the voucher document. The Board of Education will review policies regarding public use of funds.

Conclusion – Response accepted.

- (G) Special Education Program Financial Condition – During the year ended June 30, 2015, Special Education program revenue was \$748,730 and total expenditures were \$825,847. The Special Education expenditures exceeded revenues by \$77,117.

Recommendation – The District should investigate alternatives to ensure the Special Education program is in a sound financial position.

Response – Districts are required to follow the individual education plan (IEP) and provide services, regardless of cost. The District will continue to explore ways to legally follow the IEP's in the most cost-effective manner.

Special Education fund deficits are a concern for the District as well as many other districts in Iowa.

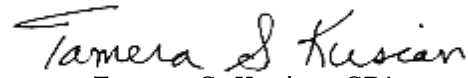
Conclusion – Response acknowledged. The District should investigate alternatives to ensure the Special Education program is in a sound financial position.

Central City Community School District

Staff

This reaudit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
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Tamera S. Kusian, CPA
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