



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ July 8, 2002

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released a special report for the period July 1, 2000 through June 30, 2001 on the Monticello Community School District. The report is the result of a request by the District to assist in addressing certain accounting practices and procedures as well as certain areas of statutory compliance.

Johnson made recommendations to the District pertaining to General Fund financial position and budgetary issues, internal controls and statutory compliance issues. The District will review and evaluate these recommendations for their consideration and determination of action as deemed necessary and appropriate.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

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MONTICELLO COMMUNITY SCHOOL DISTRICT

**AUDITOR OF STATE'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2000 THROUGH JUNE 30, 2001**

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report on Applying Agreed-Upon Procedures	5-6
Detailed Findings:	<u>Item</u>
General Fund Financial Position and Budgetary Issues	A 8-9
Internal Control	B 9-11
Student Activity Funds	C 12
School Nutrition Fund	D 13
Board Policies and Procedures	E 13-14
Other Budget Matters	F 14
Other Recommendations and Observations	G 14-15
Staff	16
Exhibits	
Revenues and Expenditures – General Fund	1
Undesignated Fund Balance/Unspent Authorized Budget- General Fund	2
Trend Analysis – General Fund	3

Monticello Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (After September 2001 Election)		
Clyde E. Meyer	President	2004
Jan Null	Vice President	2002
Karla Decker	Board Member	2002
David Ball	Board Member	2003
Lee Hein	Board Member	2003

School Officials

Rita M. Perea	Superintendent	Indefinite
Nancy A. Strang	District Secretary	Indefinite
Connie S. Reyner	Comptroller and Board Treasurer	Indefinite
Strittmatter and Herman Gruhn and Blades	District Attorneys District Attorneys	Indefinite Indefinite

Monticello Community School District



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Independent Auditor's Report
on Applying Agreed-Upon Procedures

To the Board of Education of the
Monticello Community School District:

We have performed the procedures enumerated below, which were agreed to by the Monticello Community School District, solely to assist you in evaluating District operations for the year ended June 30, 2001. The information evaluated is the responsibility of the Monticello Community School District. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

As a result, we have applied certain tests and procedures to selected accounting records and related information of the Monticello Community School District for the period July 1, 2000 through June 30, 2001. We also inquired and performed procedures for certain items to determine current practices applicable to the year ending June 30, 2002. The procedures we performed are summarized as follows:

1. We obtained financial information pertaining to the District's cash balances, unreserved, undesignated fund balances and unspent authorized budget balances to provide the District with General Fund comparisons and trend analysis.
2. We performed an internal control review for all funds and transactions cycles pertaining to the District's operation.
3. We reviewed certain operating procedures in the Student Activity Fund and tested certain fiscal 2002 transactions for statutory compliance.
4. We reviewed the financial condition of the School Nutrition Fund and tested certain fiscal 2002 transactions for statutory compliance.
5. We reviewed certain Board policies and the procedures in place to determine statutory compliance and to determine whether the procedures in place were working as prescribed.
6. We compared the District's certified budget, actual expenditures and related reports as well as the District's operating procedures to assist the District in ensuring that adequate information is available and procedures are in place to allow timely monitoring of the budget throughout the fiscal year.
7. We reviewed the status of recommendations included in a letter from the District's independent auditors dated December 5, 2001 and other recommendations and observations noted during our procedures to assist the District and to provide additional guidance to address and implement these recommendations.

Based on the performance of the procedures described above, we have various recommendations for the District. Also, certain instances of non-compliance with the Code of Iowa were noted. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, no other items of non-compliance were 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 the Monticello Community School District, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Monticello Community School District and other parties to whom Monticello Community School District may report. This report is not intended to be and should not be used by anyone other than those specified parties.

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

May 3, 2002

RICHARD D. JOHNSON, CPA
Auditor of State

Detailed Findings

Monticello Community School District

Detailed Findings

July 1, 2000 through June 30, 2001

- (A) General Fund Financial Position and Budgetary Issues - The District's General Fund unreserved, undesignated fund balance calculated in accordance with generally accepted accounting principles (GAAP) has been declining for the past three fiscal years. General Fund expenditures have exceeded revenues for the past two fiscal years. The District's General Fund unspent authorized budget declined from fiscal 2000 to fiscal 2001, and the District is projecting a further decline at the end of fiscal 2002. Consequently, the District's financial solvency ratio has also been declining for the past three years. Exhibits 1 through 3 provide a graphic depiction of the District's General Fund financial relationships.

The financial solvency ratio is a common measure of financial stability used by Iowa school districts. This ratio was developed in conjunction with the Iowa School Cash Anticipation Program (ISCAP). The Monticello Community School District had a financial solvency ratio of 4.9% percent at June 30, 2001, falling from Target Solvency Position to Acceptable Solvency Position according to ISCAP guidance.

Specifically, ISCAP provides that "Acceptable Solvency Position with an unreserved, undesignated General Fund balance in the 0 to 4.99% range should be considered adequate for short-term credit purposes as long as other local economic trends, such as property tax collections and enrollment, are sound. Continued close monitoring of the school corporation budget to prevent operating shortfalls and the deterioration of financial position is necessary." (Emphasis added)

Effective November 2001, state funding to Iowa school districts was reduced by 4.3%, which resulted in a reduction of \$145,046 for the Monticello Community School District. This, along with the District's anticipated continued declining enrollment and other economic factors, makes it essential that the District remain diligent in this oversight process, especially due to the strain on Iowa School District budgets as a result of the State's current economic condition.

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the district. This budget is certified with the County Auditor and Department of Management each year. Districts may not certify a General Fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The unspent authorized budget is the total "spending authority" in the General Fund of the District. Unspent authorized budget/spending authority is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District. Your District's budgetary unspent balance at June 30, 2001 was \$712,332.

The balance sheet in the annual audit report is the statement of financial position. The balance sheet consists of assets, liabilities and fund equity. The fund equity section of the balance sheet for your District reports a General Fund unreserved, undesignated fund balance of \$342,692 at June 30, 2001.

Districts are challenged to monitor revenues, expenditures and fund balance to maintain the District's financial solvency as well as to stay within its two budgetary limits. Your District has shown a gradual decrease in the budgetary unspent balance for the past year and anticipates further decline at the end of fiscal 2002. It is imperative that you continue efforts to maintain sufficient unspent balance (authority) by making conservative decisions affecting your unreserved, undesignated fund balance. Ideally, Districts should have its unspent authorized budget/spending authority fully backed by unreserved, undesignated fund balance.

The District must also consider its "new money". New money may be defined as (1) the increase in the school district's combined district cost from one year to the next or (2) the year-to-year increase in the combined district cost plus the increase in miscellaneous income. It is important to distinguish the difference in these two definitions, determine which definition your District will use and then insure that it is used consistently by the District and other users of your financial information. It is also important to recognize the potential ramifications of "new money" and the effect of expenditure decisions, particularly for contract negotiations. In most districts, employee salaries represent approximately 80% or more of the General Fund expenditures during the year. Accordingly, settlements that exhaust or nearly deplete the district's "new money" have a significant impact on the General Fund and usually reduce the unreserved, undesignated fund balance of the District. Districts must exercise caution, then, to avoid spending down both the budgetary unspent balance and the unreserved, undesignated fund balance.

Recommendation - The District should develop a long range, multi-year financial solvency plan. The District should continue to monitor the General Fund balance and continue to evaluate and investigate alternatives in an ongoing commitment to maintain a sound financial condition. The plan should also address the District's intentions in response to the declining unspent authorized budget to ensure that the District has adequate spending authority to allow the District to meet the District's obligations.

- (B) Internal Control - Internal control is a process, effected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) compliance with applicable laws and regulations and (3) effectiveness and efficiency of operations.

One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible.

We identified the following weaknesses and/or omissions in the District's internal control and segregation of duties:

- a. Based upon the representations of District Management Team personnel, personnel may not always be certain of assigned tasks and may not always possess adequate skills and receive adequate training necessary to perform tasks including tasks pertaining to state and federal grant compliance requirements.

- b. Written job descriptions may not exist or existing job descriptions may not be sufficient to identify specific job duties and reporting relationships.
- c. Various administrators are assigned responsibility for federal and state grant compliance requirements. The District does not have a grant coordinator or a centralized system for grant reporting and administration. The District receives federal financial assistance in the form of grants from various sources, including the Iowa Department of Education. In receiving federal financial assistance grants, the District agrees to maintain adequate records, complete various reporting requirements and disburse the funds in accordance with the grant stipulations. The District must maintain sufficient documentation to demonstrate compliance with these grantor agency provisions.
- d. The District does not have a formal data processing policy including employee instructions and practices pertaining to the District's data processing systems. The District does not have a written disaster recovery plan.
- e. A lack of segregation of duties exists for opening mail, receipts preparation, posting and depositing; cash investing and accounting duties; and reconciliation of debt payments with accounting records.
- f. Bank reconciliations are not reviewed by an independent individual and bank wire transfers for cash and investments are not independently approved. General journal entries may be made without required approval of a responsible official.
- g. Receipts are not prepared for tax payment collections, which are directly deposited to the District's bank account.
- h. The bank provides the District with check imaging copies but does not provide both sides. Consequently, the District does not review endorsements for propriety.
- i. An accounting procedures manual has not been developed.
- j. Fixed assets are not inventoried on a perpetual basis and fixed asset listings are not periodically reconciled to actual fixed assets. Complete and detailed fixed assets records were not maintained and it was unclear whether donated fixed assets were listed in the fixed assets listing and/or Board minutes.
- k. Petty cash funds are not verified by surprise counts and are not reimbursed by checks payable to the petty cash fund custodian.
- l. Purchase orders are not prenumbered or accounted for.
- m. The School Nutrition Director prepares one monthly purchase order for all food purchases after the purchases are made.
- n. Certain checks are presigned.

Recommendation -

- (a-b) Job descriptions should be prepared and/or revised to identify the specific job responsibilities and reporting requirements for all accounting and administrative personnel. The District should review and evaluate individual training needs to ensure that individuals are adequately trained to perform their assigned duties.
- (c) The District should identify and assign overall grant responsibility to one individual. The District should implement procedures to insure accountability and control over all grants received by the District. An individual should be assigned as the grant supervisor to coordinate the file documentation for grants from application to final reports to provide consistency, control and accountability.

The grant supervisor should reconcile grant reports with the District's financial reports prior to filing the grant report to insure the accuracy of the reports to the grantors. The grant supervisor should also maintain a control file for all grants received by the District, identifying the grant name, award and CFDA number, the person assigned to administer the grant and report filing requirements and timeline. Control procedures should be in place to insure that periodic checks are made of the grant files by the grant supervisor. All grant transactions should be reported in the proper fund.

- (d) The District should prepare and approve a formal data processing policy and disaster recovery plan.
- (e-f) The District should review and revise procedures to maximize internal control, including review and approval of reports, general journal entries, bank reconciliations and bank wire transfers and other transactions, as noted.
- (g) Prenumbered receipts should be prepared for all collections.
- (h) The District should request banks to provide both sides of checks redeemed and implement procedures to review endorsements for propriety.
- (i) The District should develop office procedures and standardized accounting manuals.
- (j) Detailed and complete fixed assets records should be maintained including donated assets, on a perpetual basis. Actual fixed assets should be reconciled to the fixed assets listing on a periodic basis.
- (k) Petty cash funds should be periodically reviewed by surprise counts and funds should be replenished with checks made payable to the petty cash custodian, not to the bank.
- (l-m) Purchase orders should be prenumbered by the printer or independently prenumbered and accounted for. Purchase orders should be prepared and approved by an independent individual prior to the purchase.
- (n) Checks should not be presigned.

- (C) Student Activity Funds – Article III, Section 31 of the Constitution of the State of Iowa, as interpreted by the Attorney General, provides in part that public funds may only be spent for the public benefit. Article VII, Section 1 of the Constitution of the State of Iowa provides in part that the credit of the State shall not, in any manner, be given or loaned to, or in aid of, any individual, association or corporation.

An Attorney General's opinion dated September 1, 1983 states in part "Iowa law does not require school districts to maintain funds raised by outside organizations in the school activity account. A school district board may regulate fund-raising activity during school and school sponsored events and it may regulate the use of funds derived from those sources." Various fundraisers are held in the District throughout the year. The District sponsors some fundraisers and some are sponsored by outside groups and organizations.

The District allowed student groups to order items to be reimbursed by the students, prior to collecting the entire reimbursement. Some students still owe the District for goods already purchased and received by the students.

The District also allowed separate organizations and individuals to order goods through the District using District funds and the District's tax-exempt status. Although the District was reimbursed, it was often after the purchase had been made and the separate organizations and/or individuals did not pay the required state sales tax.

The District purchased personal items of clothing for employees of the District and was not always reimbursed by the employees for these purchases. Also, the District has been requested to purchase personal items for certain student athletes.

Recommendation – Procedures should be implemented to preclude the District from paying for personal items for employees and/or students and advance payment for employee and/or student reimbursable expenses.

The District should not purchase items for student groups before the entire amount of money has been collected and remitted to the District. The District should require reimbursement of any unpaid amounts.

The District should not allow purchases by separate organizations or individuals. The District's credit and tax-exempt status should not be used for purchases not made directly by the District for school purposes.

The Board should approve all fundraising activity. If Board sponsored, the District should account for the fundraising activity. Fundraising activity should be clearly designated as Board sponsored and/or sponsored by an outside group or organization to clearly establish responsibility and accountability.

The District should establish procedures for fundraising activity for Board sponsored fundraisers as well as fundraisers sponsored by outside groups and organizations. This will help ensure consistency and accountability over fundraising activities.

- (D) School Nutrition Fund – The District’s retained earnings for the School Nutrition Fund has been declining over the past three years. The retained earnings calculated in accordance with generally accepted accounting principles (GAAP) was \$78,267 at June 30, 1999, \$45,130 at June 30, 2000 and \$31,033 at June 30, 2001.

In February 1999, the District received a letter from the Iowa Department of Education advising the District to reduce its fiscal 1999 operating balance of \$85,587. The letter stated in part “Federal regulations require the State Agency to annually review the operating balance of school lunch funds. If the operating balance exceeds the (three) months’ normal operating cost, schools are to establish and implement a plan of action to reduce the balance. The District has exceeded the three months’ operating balance for two consecutive years.” The District’s excess balance was \$2,809 at June 30, 1998.

A formal plan was not required since the District’s Food Service Director responded in part “As of January 31, 1999, our operating balance is \$62,756. The opening of a new high school building (with a complete kitchen) has significantly reduced our balance since reporting in June 1998.”

The Food Service Director represented that the District was continuing to reduce the School Nutrition Fund balance by upgrading the quality of food and updating equipment. Although the Board approves disbursements, we found no evidence that the Board approved the plan of action to reduce the School Nutrition Fund balance in response to the Iowa Department of Education.

Recommendation – At June 30, 2001, the District’s balance approximated one month of average disbursements. Based upon information available, the Food Service Director expects the School Nutrition Fund balance to show improvement at the end of fiscal 2002. The District should review the current status of the School Nutrition Fund balance and consider alternatives to maintain a sound financial position.

The Board should review and approve the action plan to improve the fiscal health of the School Nutrition Fund.

- (E) Board Policies and Procedures – We noted the following items in addition to those otherwise identified in this report:

- (a) The District’s last request for proposal (RFP) for audit services was for fiscal 1993 through fiscal 1995. Chapter 11.6(2)(a) of the Code of Iowa states in part “a ...school district... desiring to contract with or employ certified public accountants shall utilize procedures which include a request for proposals.”
- (b) The District has a credit card for gasoline. The District does not have a written policy regarding the use of the credit card in accordance with Chapter 279.8 of the Code of Iowa. Also, the credit card is not kept in a secure location.

Recommendation –

- (a) The District should comply with Chapter 11.6(2)(a) of the Code of Iowa and utilize a request for proposals process when seeking to contract with a certified public accounting firm for its annual audit. We do not believe that a verbal agreement would satisfy this requirement.

- (b) The Board should adopt a written policy governing the use of District-owned credit cards. The policy should specify the individuals who are authorized to use the card(s) and should include the types of expenses allowed to be charged and the documentation required to be submitted to support the expense incurred and to allow authorization for payment. Also, the District should designate the authorized custodian of the credit card(s) and require the credit card(s) to be kept in a secure location.

- (F) Other Budget Matters – The Board does not receive monthly line-item budget reports and has not monitored the budget throughout the year. Consequently, the District has not always amended the budget when needed as required by Chapter 24.9 of the Code of Iowa. District expenditures exceeded the budget in certain functional areas in fiscal 2000 and fiscal 2001.

At the current Superintendent's request, the District recently started to receive a printout including a budget to actual comparison. However, the computer program was designed to provide a printout that included Agency Fund transactions. Although manual (handwritten) checks are added to total expenditures, the printout was not adjusted to include expenditures made by manual (handwritten) checks prior to comparison. The Agency Fund is not required to be budgeted under Chapter 24 of the Code of Iowa. Including the Agency Fund transactions and excluding the expenditures written on manual (handwritten) checks distorts the comparison of revenues and expenditures for budget comparison purposes.

Recommendation – The Superintendent requested and obtained budget comparison reports and has implemented procedures to perform periodic review and monitoring of the budget to actual. This information should also be provided to the Board for their review and consideration as the Board and Superintendent work together in their fiscal oversight of the District.

The District's printout should be modified to add expenditure amounts for manual checks issued and to exclude Agency Fund transactions to allow the District to identify actual revenue and expenditure transactions for funds required to be budgeted for comparison to the certified budget.

- (G) Other Recommendations and Observations – We noted the following additional items for the District's review and consideration:

- (a) The March 2002 reconciliation between the book balance and bank balance was not available as of April 29, 2002 and a variance of \$47,147.12 existed between the General Fund expenditure printout and the financial report due to payables and encumbrances.
- (b) Numerous old outstanding checks and returned checks exist.
- (c) A teacher was paid from the Student Activity Fund for additional services performed for the District.
- (d) The District has numerous bank accounts and uses unnumbered checks to transfer money between these accounts.

Recommendation –

- (a) Reconciliations should be performed timely each month to ensure the proper recording/accounting of all District transactions and to provide accurate and timely financial information for budgetary

oversight. An independent person should review the reconciliations for accuracy and completeness and the independent reviewer should evidence this review with their signature and date the review was performed.

- (b) Old outstanding checks and/or returned checks should be reviewed for propriety and disposition. Checks outstanding for a period exceeding three years should be processed in accordance with Chapter 556 of the Code of Iowa pertaining to unclaimed property.
- (c) Payments to District employees for additional services to the District should be handled through the District's regular payroll process and reported as wages on the employee's W-2.
- (d) The District should review these bank accounts to determine the need to maintain the bank account. It would likely be more efficient for the District to consolidate bank accounts and use the District's fund accounting system to maintain accountability and provide compliance documentation for the various revenue sources and related disbursements.

Monticello Community School District

Staff

These agreed-upon procedures were performed by:

Susan D. Battani, CPA, Director
Nancy F. Curtis, CPA, Senior Auditor II
Beth A. Wichtendahl, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State

Monticello Community School District Revenues and Expenditures - General Fund

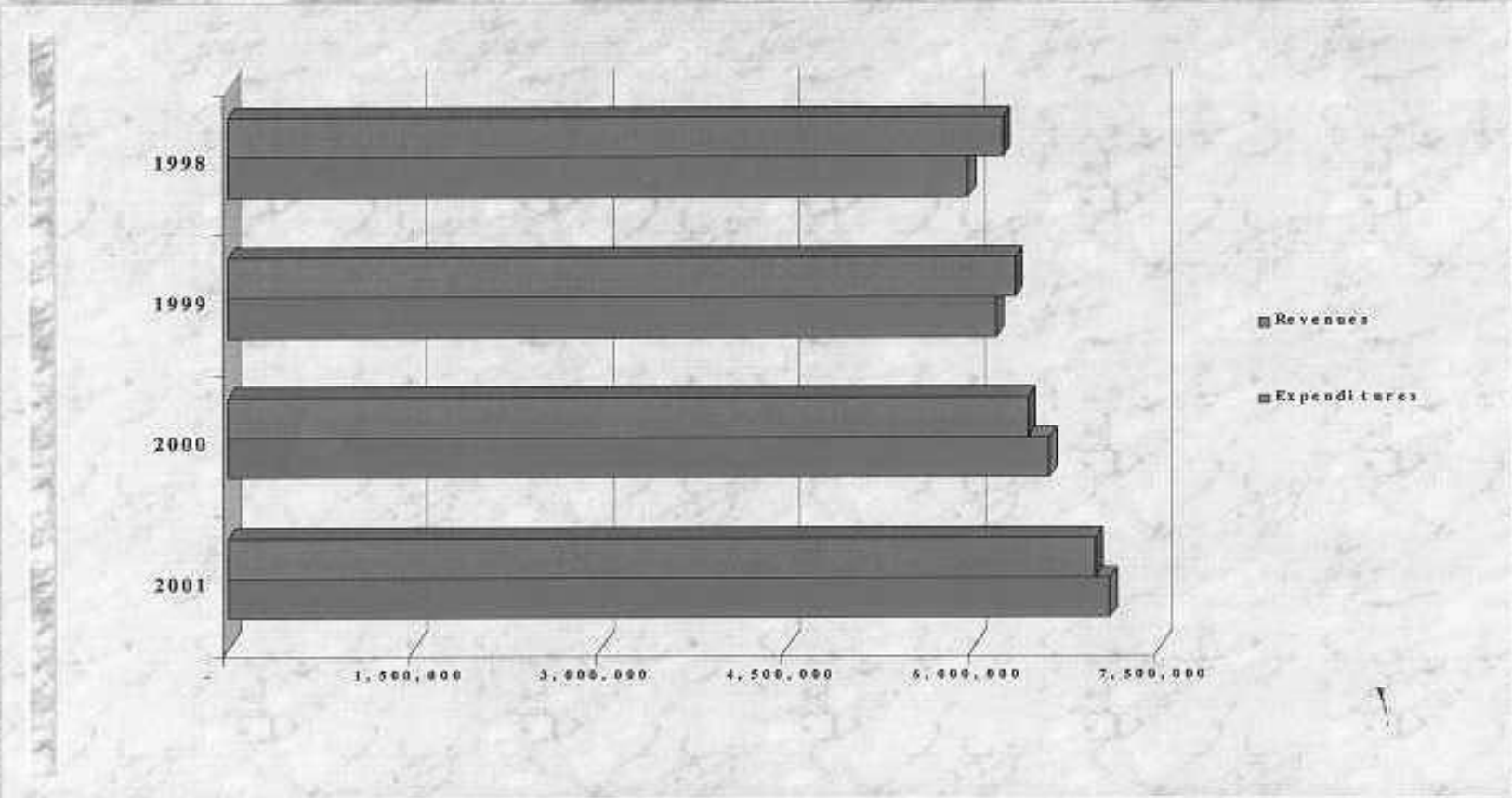


Exhibit 1

Monticello Community School District Undesignated Fund Balance/Unspent Authorized Budget General Fund

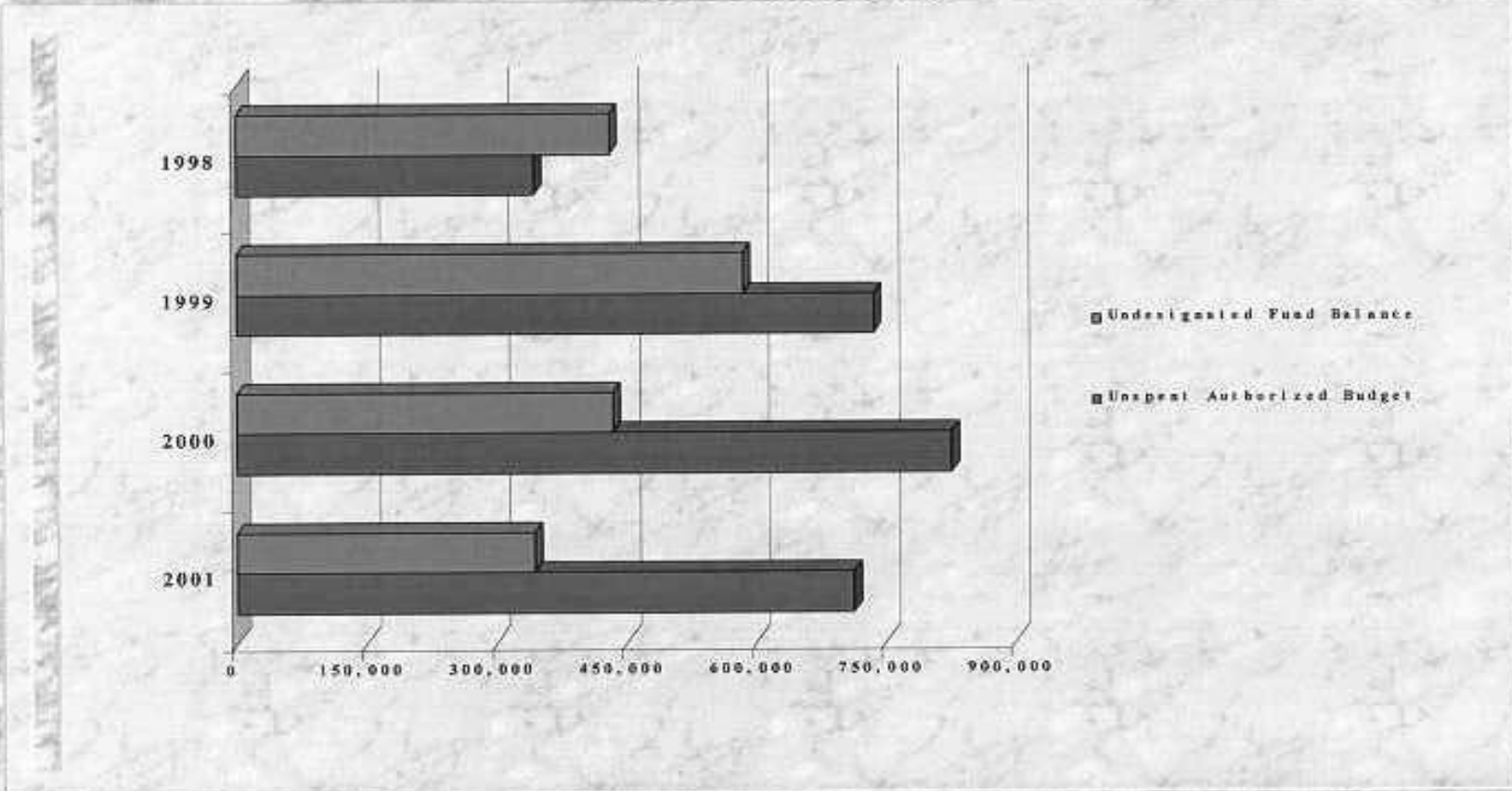


Exhibit 2

Monticello Community School District Trend Analysis - General Fund

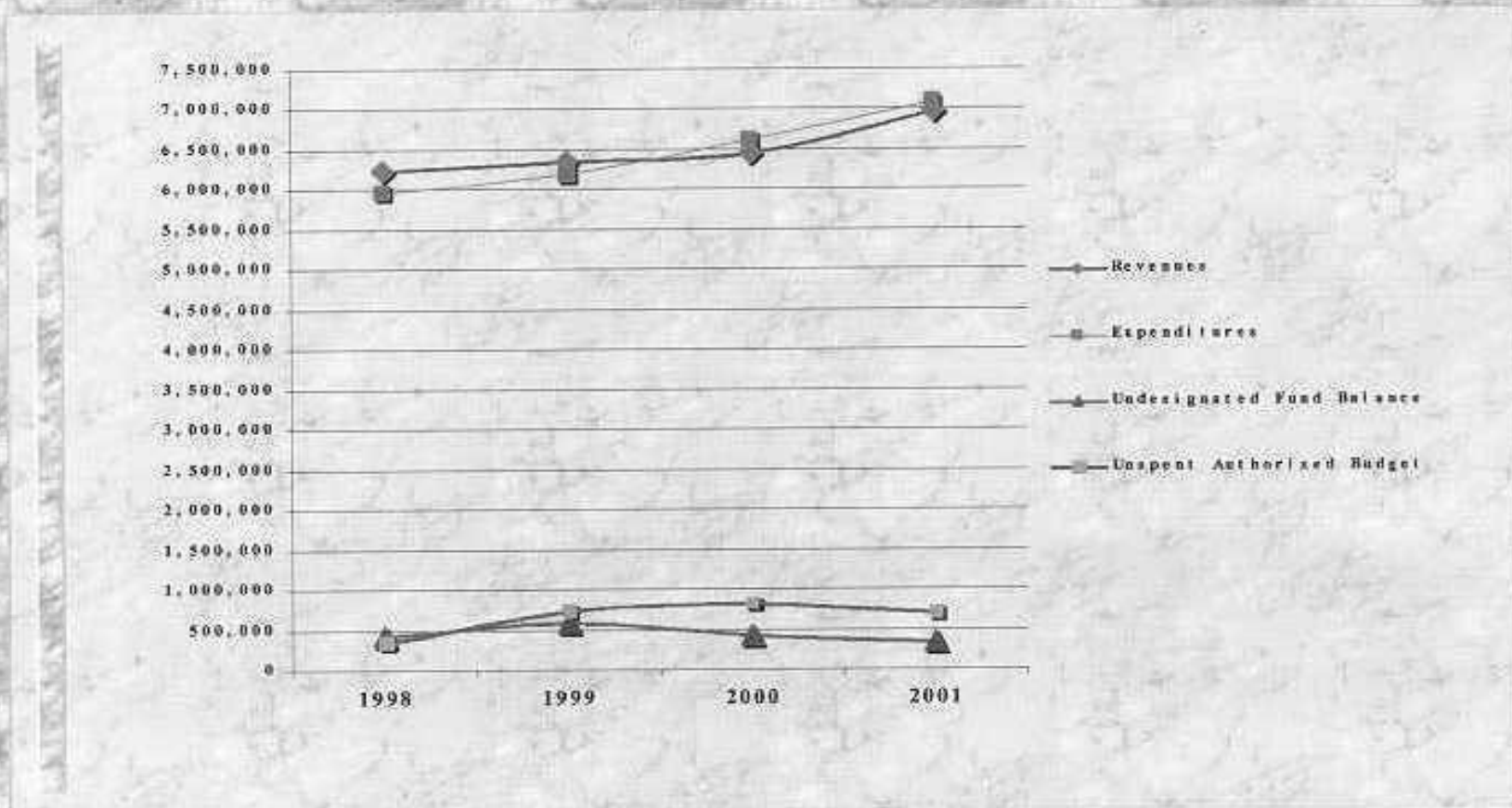


Exhibit 3