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Auditor of State

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FOR RELEASE _____ September 1, 2015 _____

Auditor of State Mary Mosiman today released a reaudit report on the North Cedar Community School District (District) for the period July 1, 2012 through June 30, 2013. The reaudit also covered certain items applicable to the year ended June 30, 2014. 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 consult the Iowa Department of Education to determine the disposition of certain unallowable transfers from the General Fund to the Enterprise, School Nutrition and Day Care Funds and investigate alternatives to eliminate deficit spending in these funds. The District should also establish procedures to ensure all special education program expenditures are allowable.

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, in the Office of Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1330-3691-T00Z.pdf>.

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NORTH CEDAR COMMUNITY SCHOOL DISTRICT
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State’s Report on Reaudit	5-6
Detailed Findings:	<u>Finding</u>
Interfund Transfers	A 8
Deficit Operations	B 9
Unallowable Special Education Expenditures	C 9
Staff	10

North Cedar Community School District

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Tim Drewelow	Board President	2013
Brent Montz	Board Member	2013
Tessa Holst	Board Member	2013
Duane Stonerook	Board Member	2015
Jane Malaby	Board Member	2015
School Officials		
Michael Cooper	Superintendent	2013
Jean Esbaum	District Secretary	Indefinite
Brian Gruhn	Attorney	Indefinite

North Cedar Community School District



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Auditor of State's Report on Reaudit

To the Board of Education of the
North Cedar Community School District:

We received a request to perform a reaudit of the North Cedar 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, 2013 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, 2012 through June 30, 2013 and the year ended June 30, 2014.


The procedures we performed are summarized as follows:


1. Reviewed the minutes of School Board meetings to determine if transfers from the General Fund to the Enterprise, School Nutrition and Day Care Funds were authorized by the Board.
2. Reviewed transfers from the General Fund to the Enterprise, School Nutrition and Day Care Funds for propriety and compliance with the *Code of Iowa* and the Iowa Department of Education's (IDOE) Administrative Rules.
3. Reviewed the fiscal year 2013 and 2014 Special Education Supplement (SES) reports to the IDOE to determine whether reported expenditures were supported by the District's general ledger.
4. Interviewed personnel from the IDOE to determine required certifications for teaching special education.
5. Obtained a listing of special education teachers from the District and reviewed required certifications for compliance.
6. Examined selected student Individualized Education Programs (IEP) to determine whether the IEPs were prepared, as required, and to determine the types of student accommodations included in the IEPs.
7. Examined certain special education disbursements to determine their propriety and whether appropriate supporting documentation was available.

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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 30, 2015

Detailed Findings

North Cedar Community School District

Detailed Findings

July 1, 2012 through June 30, 2013

- (A) Interfund Transfers – During the year ended June 30, 2014, the District transferred \$25,000 from the General Fund to the Enterprise, School Nutrition Fund and \$2,500 from the General Fund to the Enterprise, Day Care Fund. During the year ended June 30, 2013, the District transferred \$43,000 from the General Fund to the Enterprise, School Nutrition Fund. Board minutes approving the fiscal year 2014 transfers indicated the transfers were “due to deficit spending”. While the Board minutes approving the fiscal year 2013 transfer did not indicate the purpose of the transfer, District personnel indicated the transfer was to fund the deficit in the Enterprise, School Nutrition Fund. Per inquiry of District personnel, the transfers were permanent and the District does not intend to repay the General Fund.

Chapter 281-98.60 of the Iowa Department of Education’s (IDOE) Administrative Code states, in part, “No fund shall be used as a clearing account for another fund, no fund may retire the debt of another fund unless specifically authorized in statute, and transfers between funds shall be accomplished only as authorized in statute or as approved by the school budget review committee”.

The IDOE Uniform Administrative Procedures for Iowa School Districts and AEA Officials (IDOE Administrative Procedures), Chapter 9, discusses allowable school funds, including allowable and unallowable uses of the various funds, and states:

- Page 4, Interfund Transactions: “Generally, moneys may not be transferred between funds, other than authorized by 298A.9 and 298A.10, unless the transfer is a transfer of a remaining positive balance from a fund for which the purpose of the fund has ended and no other provisions have been made in creating such fund in which such balance remains.”
- Page 53, School Nutrition Fund: “School boards may use gifts, funds disbursed to them under the provisions of chapter 283A, revenues received from sale of school breakfasts or lunches, and any other funds legally available for the purpose of operating a school breakfast or lunch program (283A.2(1)).
- Page 53, Child Care & Before and After School Program Fund: “If the board does not establish a fee, it must finance the program through grants or donations or other allowable sources. The board may utilize or make application for program subsidies from any existing child care funding streams (279.49(6)). No other fund may be used to subsidize the day care program unless such use is authorized by Code from that fund.”

Based on the above information, Enterprise, School Nutrition Fund and Day Care Fund expenses are not an allowable use of the District’s General Fund. Accordingly, the District may not transfer funds from the General Fund to supplement operations or eliminate deficit spending.

Recommendation – The District should consult the Iowa Department of Education to determine the disposition of this matter. Disposition should include identification of and reimbursement to the General Fund of all amounts transferred or paid to the Enterprise, School Nutrition and Day Care Funds during past and the current fiscal years.

Response – The District will consult with the Iowa Department of Education and follow its recommendation for disposition of this matter.

Conclusion – Response accepted.

North Cedar Community School District

Detailed Findings

July 1, 2012 through June 30, 2013

- (B) Deficit Operations – Based on discussions with District personnel and a review of the District’s audit reports for fiscal year 2009 through fiscal year 2014, the Enterprise, School Nutrition Fund has reported a net loss for several years, funded in whole or in part by the General Fund. The Enterprise, Day Care Fund was established during fiscal year 2014 and operated at a deficit for that year.

Recommendation – The District should investigate alternatives to eliminate these operating deficits and return the funds to a sound financial position.

Responses –

- 1) Food Service – The District has been working for several years to remove deficit spending in the School Nutrition Fund. Due to a building closure at the end of fiscal year 2015 and staff reduction, deficit spending should be gone at the end of fiscal year 2016.
- 2) Day Care – Day Care deficit spending came about due to the unexpected closure of a private facility in the District. North Cedar Schools had approximately two weeks to get a program up and running for those parents who depend on this facility for childcare. It is estimated the Day Care Fund will not have a deficit at the end of fiscal year 2016.

Conclusion – Response accepted.

- (C) 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 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 24 expenditures posted to the District’s special education program during the two-year period from July 1, 2012 through June 30, 2014 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
Crist Construction	10/15/2012	Re-roof the day care shed	\$245.00
Jacob Wilke	01/20/2014	Posters for Board room	24.92

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

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


Conclusion – Response accepted.

North Cedar Community School District

Staff

This reaudit was performed by:

Marlys K. Gaston, CPA, Director
Katherine L. Rupp, CPA, Senior Auditor II
Ramona E. Daly, Staff Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State