



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

Contact: David A. Vaudt
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE July 15, 2005

Auditor of State David A. Vaudt today released a report on the Perry Community School District covering the period July 1, 2004 through March 31, 2005. The report is the result of procedures performed in response to concerns identified by District officials regarding bank accounts related to District athletics but maintained outside of the District's financial reporting process.

The report identified five accounts maintained for the Perry basketball, wrestling, football and baseball teams. Deposits to and disbursements from the accounts between July 1, 2004 and March 31, 2005 totaled \$5,401.35 and \$5,035.27, respectively. Vaudt reported not all proceeds were deposited intact to these accounts. In addition, supporting documentation was not available for most disbursements from the accounts. As a result, Vaudt reported the propriety of all disbursements was not readily apparent.

The report includes a recommendation the five accounts be included in the District's Student Activity Fund. The report also includes recommendations to improve the accounting for the activities occurring in the accounts.

A copy of the report is available for review in the Office of Auditor of State and the District Secretary's Office. The report is also available on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

###



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Perry Community School District
1219 Warford Street
Perry, IA 50220

To the Board of Education:

We were contacted by District officials regarding concerns about bank accounts related to District athletics maintained outside of the District's financial reporting process. As a result of those concerns, we conducted certain tests and procedures for the period July 1, 2004 through March 31, 2005. Based on discussions with District officials and a review of relevant information, we performed the following procedures:

- (1) Reviewed requirements established for student activity funds by section 298A.8 of the *Code of Iowa*, the Iowa Administrative Code and the Iowa Department of Education Uniform Financial Accounting Manual.
- (2) Reviewed the financial records of separately maintained bank accounts submitted to the District's Business Office by District employees.
- (3) Obtained a listing of all accounts maintained at local banks by District employees who sponsor or are otherwise associated with extracurricular activities involving fundraising. We reviewed the lists from the banks to identify any accounts that appeared to be related to the District but were not submitted to the District's Business Office.
- (4) Conducted interviews with selected District employees to determine the purpose and nature of the activity occurring in separately maintained bank accounts.
- (5) Evaluated internal controls to determine whether adequate procedures were in place to ensure funds in the separately maintained accounts were properly administered.

As a result of these procedures, five separately maintained accounts were identified. The separate bank accounts were not approved by the District's Board of Education and the related financial activity had not previously been reported to the District's Business Office. The accounts were maintained by District coaches of the applicable programs. We made inquiries of the coaches to determine the purpose and type of activity of each account. The accounts and their activity included:

- **Jays Basketball Club** – The account included deposits from game meal fundraisers and sports apparel sales. Disbursements included tournament entry fees, reimbursements to Perry Community Schools for sports apparel for coaches and volunteers, and other miscellaneous expenses related to the boy's basketball program.
- **Perry Girls Basketball** – The account included deposits of fees from a basketball tournament held at the District and payments to individuals for referee services.
- **Perry Wrestling Club** – The account included deposits from sports apparel sales and concession sales from Perry wrestling tournaments. Disbursements included purchases of sports apparel, concession resale items and other miscellaneous expenses related to the wrestling program.

- **Perry Football** – The account included minimal activity in the period reviewed. In the past, the account was used for football camps held at the District and other fundraising activities related to the football program.
- **Bluejay Baseball Club** – The account was opened with proceeds from a youth clinic held at the District in March 2005 and a check dated November 2004 issued from the Jays Basketball Club account. Disbursements are planned for equipment and other expenses related to the Perry baseball program.

The deposits to and disbursements from the accounts for the period of July 1, 2004 to March 31, 2005 totaled \$5,401.35 and \$5,035.27, respectively. All disbursements from the accounts are listed in **Attachment A**.

As a result of our review of the five accounts, we identified the following concerns and developed certain recommendations that should be considered by the District:

- (A) **Establishment of Accounts** - The District's Athletic Director stated separate bank accounts were established because the District is not allowed by Iowa High School Athletic Association (IHSAA) rules to sponsor summer camps or clinics for high school athletes. He also stated the Booster Club sponsored the camps and clinics held and the Booster Club's liability insurance covered the events. However, not all of the five accounts were exclusively for summer camps or clinics for high school athletes. The accounts also included fundraising and other activities not related to camps and clinics for high school athletes. One coach stated the separate bank account was established in order to bypass the District's requisition process and other internal control procedures established by the District.

We confirmed with an IHSAA official that Districts are not allowed to sponsor summer camps or clinics for high school athletes, but Booster Clubs or coaches acting independently may sponsor such activities. According to the IHSAA official, coaches acting independently would mean the coach, as an individual rather than a District employee, is sponsoring and conducting the camp or clinic and the coach is keeping the proceeds from the event. The IHSAA official also confirmed that depositing proceeds from a camp or clinic into an account maintained separately from the District for an athletic team does not mean the event is considered separate from the District. The underlying determination of compliance with IHSAA rules lies in the sponsorship of the event, not where the proceeds are deposited.

In addition, the IHSAA official stated it is allowable for Districts to pay fees for high school athletes to attend camp if the fees are paid directly to the camp sponsor. To be in compliance with IHSAA eligibility requirements, the District may not reimburse athletes or coaches for the fees.

From the information provided to us, we were unable to determine who sponsored all of the fundraisers and events that generated the funds deposited to the separately maintained bank accounts.

The minutes of the May 12, 2004 Booster Club meeting document the Booster Club agreed to sponsor the summer camps held at the school for "the different activities." However, the minutes do not document additional discussion about what sponsorship entailed or what the members of the Booster Club planned to do to carry out the camps. In addition, the Athletic Director provided us a "Booster Club Request Form" dated May 12, 2004 requesting the Booster Club to sponsor summer camps and provide insurance for volleyball, football, wrestling and basketball. However, the request was not signed.

We were unable to determine the Booster Club maintains separate insurance coverage. However, we were able to determine the District's general liability policy includes separate riders for both the Booster Club and camps or clinics. The Booster Club does not reimburse the District for the cost of the insurance.

As a result, it is unclear whether the Booster Club or the District actually sponsored the events that generated and used the funds in the five separately maintained accounts.

Recommendation - Section 291.12 of the *Code of Iowa* requires all District funds be received by the District Treasurer. Because we are not able to determine the activity in the five separately maintained accounts resulted from events sponsored by the Booster Club, the funds appear to be public (District) funds and, accordingly, the accounts should be included in the District's Student Activity Fund and be subject to Board oversight and approval, as are all other disbursements from the District's accounts.

The District should establish policies and procedures pertaining to camps and fundraising activities, including approval and accountability for the event and related financial activity. The sponsorship of all fundraisers, including camps and clinics for high school athletes and youth, should be clearly documented on posters, flyers or other marketing materials. Booster Club sponsorship should be documented in the minutes of Booster Club meetings.

When the fundraisers are sponsored by the Booster Club, the related financial activity should be included in the Booster Club's accounts. This would provide independent oversight of the funds to ensure proceeds were appropriately deposited and subsequently disbursed.

(B) Lack of Documentation – Sufficient records were not prepared or were not retained to adequately support the financial activity in the five separately maintained bank accounts. We identified the following concerns:

- 1) Receipts - Receipts were not issued for collections. Other supporting documentation, such as listings of participants or individuals attending camps, sales records for concessions or meal fundraisers, did not exist or were not always retained. In addition, collections were not always deposited intact or in a timely manner. For example, according to the wrestling coach, collections from the concession sales were not deposited intact but were used to pay state tournament trip expenses. In addition, cash collected for the Bluejay Baseball youth clinic was not deposited intact but was used to pay certain camp expenses. We were unable to determine the amount of proceeds not deposited or review the propriety of expenses paid from the proceeds because documentation was not maintained.

In addition, \$28 from the sale of the District's state tournament admission tickets was deposited into the Wrestling Club account rather than being receipted into the District's financial records.

- 2) Disbursements – Invoices, claims or other supporting documentation were retained or available for our review for only two of the disbursements from the five accounts.
- 3) Bank records - Bank statements, deposit slips and duplicate checks were not always retained. Copies of certain bank statements and other selected bank records were obtained from the banks for our review.
- 4) Check registers – Check registers were not adequately maintained for four of the five accounts. The checkbook records consisted of duplicate check copies with no book balance maintained for the accounts. Bank balances were not reconciled to book balances.

Few internal controls, if any, existed over the accounts since one individual generally handled all duties associated with the account, including collecting funds, making deposits, preparing disbursements and reconciling bank records.

Recommendation – Controls over the accounts should be properly segregated. In addition, procedures should be implemented to ensure proper accounting records are kept for activity recorded in the accounts, as follows:

- 1) **Receipts** – Prenumbered receipts or other documentation should be issued and maintained for collections to support the amounts deposited. Collections should be deposited intact and in a timely manner.
- 2) **Disbursements** – Invoices, claims or other appropriate documentation should be retained to support all disbursements.

Also, if the District chooses to maintain separate bank accounts for Student Activity Funds, procedures should be implemented to ensure appropriate bank records and check registers are maintained and properly reconciled in a timely manner.

(C) **Questionable Disbursements** – Article III, section 31 of the Iowa Constitution states public funds may only be spent for the public benefit. As stated in the previous finding, supporting documentation was not available for most of the disbursements from the five accounts. As a result, we were not able to determine the propriety of the disbursements or if they met the test of public purpose as required by the Iowa Constitution and as defined in an Attorney General's Opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. However, we identified several disbursements from the accounts that were unusual in nature. The disbursements are summarized as follows:

- **Perry Wrestling Club** – Prior to July 1, 2004, \$500 cash was withdrawn from the account. The check register did not specify the date of the withdrawal and bank statements prior to July 1, 2004 were not obtained. According to the wrestling coach, the money was used to help wrestlers with camp fees and purchase picture frames, a chin-up bar and a stereo for the wrestling room.
- **Perry Football** – A \$32.12 check dated February 19, 2005 was made payable to Casey's. According to the football coach, the purchase was to fill his vehicle with fuel for a trip to Des Moines to attend a meeting. According to the coach, while the trip would not require a full tank of gas, he had been to previous meetings for which he was not reimbursed for mileage or fuel.
- **Jays Basketball Club** – On March 10, 2005, \$348.00 was paid to the District for shirts for volunteer scorekeepers and coaches. Of that amount, \$131.00 was reimbursed to the account by coaches.
- **Perry Girls Basketball** – On August 17, 2004, \$12.00 was paid to the Clubhouse restaurant for a meal for coaches.

Recommendation – All disbursements should be properly recorded and supported by appropriate documentation. In addition, the public purpose served by the disbursement should be appropriately documented prior to the disbursement of public funds. According to the Attorney General's Opinion, it is possible for certain expenditures 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 improper purpose is very thin. Purchases and disbursements of public funds should be made pursuant to established District practices and statutory requirements. Reimbursements for purchases, if appropriate, should be made by District check, not from cash collections.

The District should review the propriety of the questionable disbursements to determine whether individuals should reimburse the District.

As a result of our review, we identified the following additional findings and recommendations that should also be considered by the District:

- (1) Separately Maintained Bank Accounts – Five separately maintained bank accounts were identified which were not included in the District’s financial statements. In addition, the existence of the five accounts was unknown to District officials.

Recommendation – The District should establish policies and procedures to ensure all bank accounts associated with the District or District activities are reviewed and approved by the Board prior to their establishment.

The procedures should include criteria to be used by the District to evaluate the proposed bank account in order to determine if a separate account is necessary, if the activity would more appropriately be included in the District’s Student Activity Fund or if the activity is that of an outside entity and is not a part of the District. In establishing these criteria, the District should consider the nature of the activity and the planned use of the funds. Section 291.6 of the *Code of Iowa* requires the Board Secretary to keep an accurate and separate account of each fund with the Treasurer and to present all expenses to the Board for audit and payment.

In addition, the Board should clarify policy number 702.4. The policy states “funds raised by students for activities shall be properly held and accounted for by the Board Secretary/Business Manager.” The policy should be clarified to ensure all funds raised by and for the students are properly held in the Student Activity Fund.

- (2) Class Accounts – The Student Activity Fund of the District does not include any accounts established for specified graduating class accounts, such as “Class of 2005.” According to the District’s Activities Director, these accounts are maintained by the students or parents.

Chapter 8 of the Department of Education’s Uniform Financial Accounting Manual for local education agencies (LEAs) and area education agencies (AEAs) includes the “Class of 2XXX” in examples of Student Activity Funds located in Table 13. This chapter states the following:

“It is also possible, though uncommon, for students to own the student activity funds of their club or organization if the student group has its own federal identification number and does not use the district’s sales tax exemption or any other benefits of the district. In this case, the disbursing of monies from the student activity fund account may be subject to approval by the student organization and its sponsors, rather than by the board of education. This would be the case if the district were handling the funds on behalf of the students in a fiduciary capacity. However, in Iowa, most student activity funds are owned and controlled by the board of education and would be included in the special revenue fund.”

Chapter 8 also states “Although a sharp distinction exists between student-owned and district-owned activity funds, accounting for all activity funds is the responsibility of the school district. All activity funds must be reported in the school district’s financial statements and are subject to the district’s audit.”

Recommendation – The District should identify all existing accounts established for graduating classes and record the activity in the District’s financial statements in accordance with Chapter 8 of the Department of Education’s Uniform Financial Accounting Manual for LEAs and AEAs.

- (3) Use of District Facilities - The “Perry Community School District Facility Regulations” document provided to us by the Athletic Director states rental fees are to be placed in the Activity Foundation account. Section 297.10 of the *Code of Iowa* requires rental fees to be credited to the District’s General Fund.

In addition, it does not appear the District’s Board of Education approved the facility regulations. However, the Board has approved policy number 906.1, “Community Use of School District Facilities and Equipment.” The policy approved by the Board does not address the deposit of funds collected for the use of facilities and equipment.

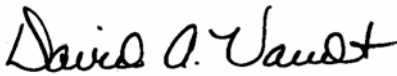
According to the Athletic Director, the facility use agreements are not completed when fees are not collected for use of the facility. The Athletic Director indicated facility use agreements were not completed for the use of District facilities for the five sports for which separate bank accounts were established because rental fees were not assessed for their camps and clinics.

Recommendation – The facility regulations should be reviewed by the District’s Board of Education. Any regulations or guidelines approved by the Board should require rental fees be deposited to the District’s General Fund in accordance with the *Code of Iowa*. In addition, the regulations should be applied consistently for all parties using District facilities, not only those paying the fee for their use.

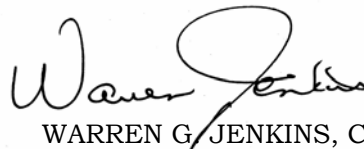
The procedures we performed do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Perry Community School District, other matters might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

A copy of this report has been filed with the Iowa Department of Education.

We would like to acknowledge the assistance and many courtesies extended to us by officials and staff of the District during the course of our review.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 13, 2005

Perry Community School District
Disbursements from Separately Maintained Accounts
For the period July 1, 2004 through March 31, 2005

Account	Payee	Date	Check Number	Amount	Description per Inquiry
Jays Basketball Club	Hopkins	08/06/04	173	\$ 137.50	Sports apparel - Shot Club
	Jenn Herrick	08/05/04	174	70.00	Entry fee for basketball tournament in Ogden
	Grand View Basketball	08/24/04	175	250.00	Basketball league fee
	Mike Long	10/26/04	194	600.00	Deposited to baseball account in March 2005. Split of profits from girls/boys youth basketball camp held in June 2004
	KBA	11/05/04	144	10.00	White board
	Boy Scout Troop 187	11/12/04	145	7.00	Calendar for coach's office
	Joebgen	11/20/04	146	90.10	Basketball shoes for student (to correct error on previous purchase)
	Mary Ridgway	11/23/04	147	134.00	Reimbursement to coach's family member for on-line purchase of video camera used for taping basketball games
	Perry High School	11/29/04	148	61.00	Apparel order
	Joan Dearborn	02/08/05	120	40.00	Reimbursement of basketball tournament entry fee
	City of Jefferson	02/10/05	121	60.00	Basketball tournament entry fee
	Perry Comm. Schools	03/10/05	151	348.00	^ Apparel order for volunteers and coaches, some of the cost was reimbursed
Perry Girls Basketball	Kevin Wicks	08/14/04	373	45.00	Referee fee for basketball shootout
	Leo Muldoon	08/15/04	370	210.00	Referee fee for basketball shootout
	Joe Townsell	08/15/04	371	180.00	Referee fee for basketball shootout
	Rick Molden	08/15/04	372	180.00	Referee fee for basketball shootout
	Roland Simmons	08/16/04	302	90.00	Referee fee for basketball shootout
	Terry Kemp	08/16/04	309	160.00	Referee fee for basketball shootout
	Brett Johnson	08/17/04	303	45.00	Referee fee for basketball shootout
	Mike Tebbles	08/17/04	304	45.00	Referee fee for basketball shootout
	Rick Fuller	08/17/04	305	115.00	Referee fee for basketball shootout
	The Clubhouse	08/17/04	308	12.00	Meal for coaches
	Unavailable	08/20/04	306	65.00	unknown
	Unavailable	09/08/04	307	60.00	unknown
	Mark Tiby	12/31/04	374	30.00	Referee fee for scrimmage

Perry Community School District
 Disbursements from Separately Maintained Accounts
 For the period July 1, 2004 through March 31, 2005

Account	Payee	Date	Check Number	Amount	Description per Inquiry
	Mark Tiby	12/31/04	374	30.00	Referee fee for scrimmage
Perry Wrestling Club	Ace Hardware	11/11/04	337	11.44	Wrestling room supplies
	The Predicament	11/12/04	338	115.00	Subscription to magazine
	VOID		339		
	Graphic Edge	01/14/05	340	1,039.82	^ Shirts for participants in youth clinic; related deposit of \$1,051 on 11/12/04
	Graphic Edge	02/04/05	341	41.50	Only statement received, no invoice
	Sam's	02/05/05	342	151.71	Supplies for concessions
	Wal-Mart	02/05/05	343	25.26	Supplies for concessions
	Atlantic Bottling Co.	02/07/05	344	214.00	Supplies for concessions
	Fareway	02/10/05	345	58.48	Supplies for concessions
	First Federal	02/12/05	346	150.00	Change for concessions
	Perry High School	02/17/05	347	17.98	Supplies for concessions purchased from District
	IWCOA	02/23/05	348	99.00	Coaching dues
	Ken's Northside Café	02/28/05	349	8.00	Tip for meal during tournament (District paid for meal)
Perry Football	Jim Richmond	02/18/05	cash withdrawal	20.00	Reimbursement to assistant coach paid for part of pre-game meal that parents normally provide.
	Casey's	02/19/05	146	32.12	Fuel purchased for coach's personal vehicle to attend a meeting in Des Moines
	Subtotal			5,028.91	
	Bank charges			6.36	
	Total			\$ 5,035.27	