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NEWS RELEASE

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FOR RELEASE

December 26, 2018

Auditor of State Mary Mosiman today released a reaudit report on the Lawton-Bronson Community School District (District) for the period July 1, 2012 through June 30, 2016. The reaudit was performed at the request of a District employee pursuant to Section 11.6(4)(a)(2) of the *Code of Iowa*. The request submitted to the Office of Auditor of State asked for a reaudit of the year ended June 30, 2014. However, based on the nature of the concerns presented, the reaudit also covered items applicable to the years ended June 30, 2013, June 30, 2015, and June 30, 2016.

The reaudit was requested due to concerns regarding District operations, including policies established by the District for procurement cards and the propriety of expenditures for food charged to District procurement cards.

Mosiman recommended the Board review and evaluate the District's current travel policies and ensure they are being complied with and strengthen the policy regarding preapproval of travel and enforce the established policy related to meal and hotel limits. In addition, the Board should ensure the public purpose, as defined in an Attorney General's opinion dated April 25, 1979, of meal expenditures for employees not in travel status is documented and those expenditures provide a public benefit and are in the best interest of the District. The Board should also establish policies regarding allowability and dollar limits for food and snacks purchased for students, parents, and teachers and for travel costs related to State athletics and other activities. The Board should implement procedures to ensure the procurement card expense record is prepared and reviewed as required.

The District responded favorably to the recommendations included in the reaudit report.

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/audit-reports/>, and in the Office of Auditor of State.

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LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT

**AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD**

JULY 1, 2012 THROUGH JUNE 30, 2016

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Report on Reaudit	5-6
Background Information	8
Detailed Findings:	<u>Finding</u>
Questionable Expenditures	A 8-12
Procurement Card Expense Record	B 12
Policy for Use of Funds	C 13
Verbal Pre-approval for Travel	D 13
Travel Policy	E 13-14
Travel for State Athletics and Other Activities	F 14
Personal Purchases	G 14-15
Staff	16

Lawton-Bronson CSD

Officials – Fiscal Year 2018

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Rick Scott	President	2019
Molly Holtz	Vice President	2019
Dennis Reinke	Board Member	2019
Kristi Amick	Board Member	2021
Jayna Woolridge	Board Member	2021
School Officials		
Randy Collins	Superintendent	2019
Ryan Anderson	District Secretary/Business Manager	2019
Ahlers & Cooney	Attorney	2018

Officials – Fiscal Year 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Steve Olson	President	2017
Shelley Junck	Vice President	2015
Molly Holtz	Board Member	2015
Machele Dunning	Board Member	2017
Jesse Petersen	Board Member	2017
School Officials		
Jeffrey Thelander	Superintendent	2014
Kimberly Brouwer	District Secretary/Business Manager	2014
Ahlers & Cooney	Attorney	2014

Lawton-Bronson Community School District



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Auditor of State's Report on Reaudit

To the Board of Education of the
Lawton-Bronson Community School District:

We received a request to perform a reaudit of the Lawton-Bronson Community School District (District) in accordance with Section 11.6(4)(a)(2) of the *Code of Iowa*. As a result, we performed a review of the audit report for the year ended June 30, 2014 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, 2016.

Based on a review of relevant information and discussions with District officials and personnel, we performed the following procedures:

1. Obtained and reviewed various Board policies to determine whether they were sufficient and whether certain District transactions were in compliance with the established Board policies.
2. Evaluated internal controls related to the expenditures function to determine whether adequate procedures were in place and operating effectively.
3. Obtained expenditure listings of all procurement card transactions and examined selected expenditures to determine propriety, whether sufficient supporting documentation was available, and whether the selected expenditures met the test of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Based on the performance of these procedures, we identified inadequate documentation of public purpose for certain expenditures and instances of non-compliance with established District policies and have developed various recommendations for the District. The inadequate documentation of public purpose and instances of non-compliance with established District policies 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.

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

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

November 14, 2018

Lawton-Bronson Community School District

Lawton-Bronson Community School District

July 1, 2012 through June 30, 2016

Background Information

We received a written request from a District employee to conduct a reaudit of the Lawton-Bronson Community School District for fiscal year 2014. The request detailed specific concerns, including:

1. The District's policy regarding use of procurement cards, specifically regarding purchases made by District administration.
2. Certain expenditures not meeting the definition of public purpose, specifically food purchases on District procurement cards.

As a result of the request, 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 concerns presented for the period July 1, 2012 through June 30, 2016.

Except as included in this report, no additional findings were identified related to the specific concerns presented with the reaudit request. While the reaudit procedures performed addressed the concerns presented, additional procedures were not performed during our fieldwork for the reaudit. Had we performed additional procedures, additional matters might have been identified and included in this report.

Detailed Findings

- (A) Questionable Expenditures – We identified certain expenditures that 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.

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 an improper purpose is very thin.

Procurement card purchases charged to the cards held by the former Superintendent, Jeffrey Thelander, the Elementary Principal, Chad Shook, and selected District employees were reviewed to determine if each transaction was reasonable, supported by adequate documentation, and met the test of public purpose. Purchases were classified as reasonable if the purchases were necessary for District operations and met the test of public purpose. Purchases which did not meet the test of public purpose or were not reasonable for District operations were considered improper. Purchases were considered unsupported if documentation was not available to determine if the purchase was related to District operations or met the test of public purpose.

The District's credit card policy, which also applies to the District's procurement cards, requires employees and officers using the District credit card to submit a detailed receipt in addition to a credit card receipt indicating the date and amount for each claim. In addition, the Procurement Card Program (P-Card) policy states it is the responsibility of the employee to pay for any charges for which an itemized receipt or like documentation is not provided. The employee travel compensation policy also states failure to have a detailed receipt will make the expenditure a personal item, and the employee is to reimburse the District no later than 10 working days following the date of the expenditure.

We reviewed selected expenditures by fiscal year for the period July 1, 2012 through June 30, 2016 to determine if the procurement card purchases were properly supported, reasonable for District operations, and met the test of public purpose. For those purchases which were considered unsupported, we also determined if they were properly reimbursed within the required time period in accordance with District policy.

Table 1 summarizes the improper, unsupported, and reimbursed purchases identified for Mr. Thelander, as well as any amounts not reimbursed to the District.

Table 1

Fiscal Year	Improper	Unsupported	Reimbursed*	Not Reimbursed
2013	\$ 830.38	962.67	757.87	204.80
2014	1,022.50	286.94	275.32	11.62
2015	842.32	2,376.42	2,505.25	(128.83)
2016	179.58	73.04	-	73.04
Total	\$ 2,874.78	3,699.07	3,538.44	160.63

* - Amounts reimbursed correspond to unsupported reimbursements.

We identified 50 expenditures totaling \$2,874.78 charged to the procurement card held by Mr. Thelander which were considered improper for the period July 1, 2012 through June 30, 2016, including:

- \$1,882.43 for meals at various restaurants which did not meet the test of public purpose because Mr. Thelander and other District employees were not in travel status.
- \$612.19 for 2 meals for a symposium speaker and his family, in lieu of a speaking fee, which was attended by the Superintendent and certain teachers and included the purchase of alcohol.
- \$380.16 for various purchases, including donuts, a hotel meeting room for which there was no documentation of the necessity of the meeting, a movie purchased at a hotel while attending a conference, supplies for teacher in-service, teacher appreciation expenditures for a different District, and an unknown charge at a hotel. The District was subsequently reimbursed for the cost of the movie.

Of the \$1,882.43 identified for meals, the following 5 restaurants comprised the majority of the purchases:

- \$458.40 on 8 occasions at Subway in Merville, Iowa; Sioux City Iowa; and Stuart, Iowa;
- \$243.82 on 3 occasions at Jimmy John's in Sioux City, Iowa;
- \$172.99 on 3 occasions at Chick-fil-A in Sioux City, Iowa;
- \$139.66 on 3 occasions at Red Robin in Sioux City, Iowa; and
- \$128.86 on 3 occasions at Carlos O'Kelley's in Sioux City, Iowa.

In addition, we identified 116 transactions for which no supporting documentation or inadequate supporting documentation was available totaling \$3,699.07. As previously stated, according to District policy, detailed receipts are to be provided, and if not provided, the individual must reimburse the District for the expenditure.

As illustrated by **Table 1**, Mr. Thelander reimbursed \$3,538.44 to the District for purchases made between July 1, 2012 and June 30, 2016. Also, illustrated by **Table 1**, Mr. Thelander reimbursed \$128.83 more to the District than was required during the year ended June 30, 2015. We determined this was a result of Mr. Thelander locating and providing additional receipts after issuing a reimbursement check to the District. As previously stated, District policy states reimbursement for failure to have a detailed receipt is to be made within 10 working days following the expenditure. However, reimbursements issued by Mr. Thelander to the District were dated between May 1, 2016 and July 1, 2016 for the year ended June 30, 2013, June 24, 2016 and July 16, 2016 for the year ended June 30, 2014, and August 10, 2015 and September 9, 2015 for the year ended June 30, 2015.

Table 2 summarizes the improper and unsupported purchases identified for Mr. Shook.

Fiscal Year	Improper	Unsupported
2013	\$ 421.97	152.40
2014	1,062.86	39.03
2015	927.83	157.53
2016	750.45	218.82
Total	\$ 3,163.11	567.78

We identified 90 expenditures totaling \$3,163.11 charged to the procurement card held by Mr. Shook which were considered improper for the period July 1, 2012 through June 30, 2016, including:

- \$2,300.52 for meals at various restaurants which did not meet the test of public purposes because Mr. Shook and other District employees were not in travel status.
- \$862.59 for various purchases, including coffee mugs for teacher appreciation, snacks for staff development, coffee for teacher in-service, bowls for the staff lounge, bakery and other candy items, a phone case, and an iPad case.

Of the \$2,300.52 identified for meals, the following 5 restaurants comprised the majority of the purchases:

- \$208.62 on 8 occasions at Chick-fil-A in Sioux City, Iowa;
- \$204.45 on an occasion at Bob Roe’s Point After in Sioux City, Iowa;
- \$200.40 on 4 occasions at Buffalo Wild Wings in Sioux City, Iowa;
- \$199.09 on 10 occasions at Carlos O’Kelley’s in Sioux City, Iowa; and
- \$189.50 on an occasion at Castle Pub and Grill in Sioux City, Iowa.

In addition, we identified 26 transactions for which no supporting documentation or inadequate supporting documentation was available or the supporting documentation differed from the charge totaling \$567.78. As previously stated, according to District policy, detailed receipts are to be provided, and if not provided, the individual must reimburse the District for the expenditure.

Mr. Shook did not reimburse the District for any purchases for which sufficient supporting documentation was not provided. The District stated a portion of the unsupported purchases were reimbursed by the School Administration of Iowa for Mr. Shook’s participation in the Nation Association of Elementary School Principals (NAESP). However, since the District credit card was initially used, District policies should have been complied with and adequate supporting documentation provided to support the credit card charges.

Table 3 summarizes the improper and unsupported purchases identified for the selected employees.

Fiscal Year	Improper	Unsupported
2013	\$ 1,862.19	633.92
2014	1,638.33	163.17
2015	1,780.17	887.99
2016	1,691.32	863.81
Total	\$ 6,972.01	2,548.89

We identified 207 expenditures totaling \$6,972.01 charged to the procurement cards held by the selected employees which were considered improper for the period July 1, 2012 through June 30, 2016, including:

- \$5,796.11 for meals at various restaurants which did not meet the test of public purposes because the selected District employees were not in travel status.
- \$1,175.90 for various purchases, including burgers, hot dogs, buns, chips, baked goods, pop, candy, cookies, site visit food and supplies, and miscellaneous snacks and drinks.

Of the \$5,796.11 identified for meals, the following 5 restaurants comprised the majority of the purchases:

- \$1,032.57 on 24 occasions at Pizza Ranch in Sergeant Bluffs, Iowa; Sioux Center, Iowa; and Sioux City, Iowa;
- \$718.86 on 23 occasions at Chick-fil-A in Sioux City, Iowa;
- \$593.25 on 6 occasions at Hy-Vee in Sioux City, Iowa;
- \$321.47 on 3 occasions at Perkins in Sioux City, Iowa; and
- \$265.14 on 15 occasions at Subway in Cherokee, Iowa; Merville, Iowa; and Sioux City, Iowa.

In addition, we identified 54 transactions for which no supporting documentation or inadequate supporting documentation was available totaling \$2,548.89. As previously stated, according to District policy, detailed receipts are to be provided, and if not provided, the individual must reimburse the District for the expenditure. However, none of the selected employees reimbursed the District for any purchases for which sufficient supporting documentation was not provided.

According to section 119 of the Internal Revenue Code (IRC), meals provided are excluded from wages of the employee if the meals are provided on the employer’s business premises and for the employer’s convenience. Section 12 of the Internal Revenue Service (IRS) Fringe Benefit Guide defines meals provided for the convenience of the employer as meals provided for a substantial “noncompensatory” reason and provides examples of such reasons. If meals do not meet this exemption, they should be included in the employee’s W-2 and are subject to income tax.

Meals provided to employees for various meetings in the vicinity of the Lawton-Bronson Community School District do not appear to meet the definition of the convenience of the employer but were not included in the employees’ W-2s. Therefore, the employees were not taxed for these meals in compliance with the IRC.

Recommendation – The Board should review and evaluate the District’s current travel policies and ensure they are being complied with. The Board should also establish dollar limits for the purchase of food being provided during or after meetings and determine and document the public purpose served by these expenditures before authorizing any further payments. The District should also implement procedures to ensure all procurement card charges are reasonable and necessary for District operations, meet the test of public purpose as defined in an Attorney General’s opinion dated April 25, 1979, and are adequately supported. The District should also review the IRC and ensure the value of the meals the District provides to employees is included in the employees’ W-2s so they are taxed according to IRS regulations.

Response – The District will review travel policies including dollar limits for food purchases. The District will also ensure reimbursements will be made only after proper documentation has been provided and public purpose has been established.

Conclusion – Response accepted.

- (B) Procurement Card Expense Record – The District’s procurement card policy, approved May 12, 2014, requires an employee or official using a procurement card to review monthly statements, complete the Procurement Card Expense Record (Record), and submit the completed Record to the Purchasing Department within 5 days of receipt of the statement. In addition, the credit card policy states it is the responsibility of the Superintendent to determine whether the use of District credit cards is for appropriate school business, and it is the responsibility of the Board to determine, through its audit and approval process, whether the use of a District credit card by the Superintendent and/or a member of the Board is for appropriate school business. The Record provides for the signature of the cardholder and the signature of the Administrator, and also provides for the justification of the expenditure, including public purpose.

For the period reviewed, Mr. Thelander did not prepare or submit a Procurement Card Expense Record. However, he included notations on the monthly credit card statement documenting the purpose of each expenditure. Mr. Shook prepared and submitted the Procurement Card Expense Record each month, as required. However, either both signatures were written by Mr. Shook or it was not signed. For the additional selected employees we determined the Procurement Card Expense Record was not consistently used. In addition, if the Record was completed and submitted, it was not signed by an Administrator denoting review and approval.

Recommendation – The District should ensure the established policy is complied with and require all procurement card users prepare and submit the Procurement Card Expense Record within 5 days of receipt of the statement. The Superintendent’s Record should be reviewed and approved by the Board, or a designated member of the Board and all others should be reviewed and approved by the Superintendent. The review and approval should be documented by the reviewer’s signature on the appropriate line of the form.

Response – The District will enforce its policy on procurement cards and have employees complete the Procurement Card Expense Record and submit it to the Purchasing Department within 5 days of receipt of the statement. The District will also ensure proper procedures for approval of expenditures for school business are followed.

Conclusion – Response accepted.

- (C) Policy for Use of Funds – There is not a District policy to address the purchase of food or snacks, or the related public purpose for activities such as test incentive programs, volunteer events/appreciation, student helper/teacher appreciation, holiday celebrations, conferences, funeral flowers, or other various celebrations. However, because the purchases appear to be for the benefit of students and their families, these expenditures were not considered to be improper.

Recommendation – If the District deems such expenditures to meet the test of public purpose, the Board should develop a policy which clearly documents the public purpose, establishes the allowability of the various activities, and includes parameters and limitations on the use of public funds.

Response – The District will evaluate this practice and develop a policy which documents the public purpose, establishes the allowability of the various activities and includes parameters and limitations on the use of public funds if the District decides to continue this practice.

Conclusion – Response accepted.

- (D) Verbal Pre-approval for Travel – The District’s employee travel compensation policy states travel outside of the District must be verbally pre-approved by the employee’s supervisor, and the pre-approval should include an evaluation of the necessity of the travel, the reason for the travel, and an estimate of the cost of the travel to qualify as approved school district business. Because only verbal approval is required, we were unable to test this requirement. In addition, the District has no documentation to ensure approval was granted.

Recommendation – If pre-approval is considered necessary for out-of-District travel, the District policy should be strengthened to require the pre-approval to be in writing and submitted with the Procurement Card Expense Record included with the procurement card statement and other supporting documentation.

Response – The District will evaluate the policy requiring pre-approval for out-of-District travel to be in writing and if it is determined pre-approval is necessary, will strengthen the policy to include approval to be in writing.

Conclusion – Response accepted.

- (E) Travel Policy – The District’s employee travel compensation policy states the pre-approved expenditure for lodging within the state is limited to \$110.00 per night and the pre-approval for lodging outside the state is limited to the rate of a medium priced hotel in the area. In addition, the policy provides for pre-approval of a larger amount if special circumstances require the employee to stay at a particular hotel. The policy also states the pre-approval for meals, whether in-state or out-of-state, is limited to \$7.00 for breakfast, \$12.00 for lunch, and \$24.00 for dinner. However, the policy also includes a provision for meals to be pre-approved at a larger dollar amount by the Superintendent.

We identified several instances of out-of-state travel for which there was no documentation of the rate of a medium priced hotel in the area. As a result, we were unable to determine whether the rate paid for the hotel was reasonable and within the limits stated in the policy. We also identified 69 instances and 2 instances where the meal and hotel rates, respectively, exceeded established limits, and no reimbursements of the excess amounts were made.

In addition, we identified instances where internet charges at a hotel were included in the billing. However, the District’s travel policy does not address whether internet access charges are allowable, whether internet access is required of District personnel in travel status, and the reimbursable amount allowed for employees.

Also, we observed several meal receipts for multiple District personnel; however, the receipts did not consistently identify the names of the District personnel attending or the meal/drink ordered by each employee. By not identifying the District personnel, any taxable meals, as discussed in **Finding A**, can not be handled correctly.

Recommendation – The District policy should be strengthened to include a requirement to document the rate of a medium priced hotel in the area when out-of-state travel is necessary. The Board, or designated reviewer, should also scrutinize procurement card purchases for food and lodging to ensure established limits are not exceeded. If limits are exceeded, the employee or official exceeding the limit should be required to reimburse the District for the excess amount. In addition, the District should expand the current policy to address the allowability of internet access charges at a hotel, including the amount to be reimbursed. In addition, if a procurement card is used to purchase meals for multiple personnel, the policy should require the names of District personnel are documented, including each employee’s order, to ensure the meal is within the established limits and can be included in the employee’s W-2, if applicable.

Response – The District will review its policy on out-of-state travel including determining the rate of a medium priced hotel in the area. The District is currently reviewing procurement card statements monthly to ensure spending limits are not exceeded and are reimbursed by the employee if the limit is exceeded and the District will continue to do so. The District will also ensure all employee names are documented to ensure the meal is within the established limits.

Conclusion – Response accepted.

- (F) Travel for State Athletics and Other Activities – There is currently no District policy addressing whether District personnel are required to attend State athletic, or other, competitions as a representative of the District and the related travel costs to be paid for, or reimbursed, by the District.

Recommendation – The District should establish a policy defining who should attend a State athletic event, or other competition, as a representative of the District. The policy should include the related travel costs to be paid for, or reimbursed, by the District and the public purpose of the allowable costs.

Response – The District will establish a policy defining who should attend a State athletic event or other competition as a representative of the District which will include related travel costs to be paid for, or reimbursed by the District and the public purpose of the allowable costs.

Conclusion – Response accepted.

- (G) Personal Purchases – During the fiscal years ended June 30, 2014 and June 30, 2015, Mr. Shook wanted his wife to accompany him to an out-of-state conference. He asked the District if it would be permissible to purchase her plane ticket at the same time he purchased his using the District’s procurement card. After receiving permission, he purchased their airline tickets and paid the related baggage fees with the District’s procurement card.

There is currently no District policy addressing whether the purchase of an airline ticket for a non-employee is allowable or the proper procedures to be followed. Although Mr. Shook properly reimbursed the expenses related to his wife’s travel, the initial purchase should not have been made using a District procurement card.

Recommendation – The District should not allow purchases to be made for non-employees on a District procurement card. In these instances, the employee should be required to purchase the items using a personal credit card and seek reimbursement from the District for any purchases related to District operations.

Response – The District will ensure a procurement card is not used for purchases for non-employees.

Conclusion – Response accepted.

Lawton-Bronson Community School District

Staff

This reaudit was performed by:

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