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Rob Sand
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NEWS RELEASE

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FOR RELEASE October 12, 2021

Auditor of State Rob Sand today released a reaudit report on the Sioux City Community School District (District) for the period July 1, 2016 through June 30, 2019. The reaudit was performed at the request of petitioners pursuant to Section 11.6(4)(a)(3) of the *Code of Iowa*. The petition submitted to the Office of Auditor of State requested a reaudit of the year ended June 30, 2018. However, based on the nature of the concerns presented, the reaudit also covered items applicable to the years ended June 30, 2017 and June 30, 2019.

The reaudit was requested as a result of concerns regarding approval of certain salary/wage increases, expense reimbursements, and the use of District credit cards.

Sand reported the Board meeting minutes did not sufficiently document salary increases and did not include approval of final individual pay increases. Sand also reported concerns were identified with certain reimbursements to District administrators, including twelve reimbursements totaling \$979.11 for purchases of food, snacks, and decorations for staff meetings and parties which do not meet the test of public purpose; eight reimbursements totaling \$382.11 for which documentation was not adequate to demonstrate the public purpose served; and three reimbursements totaling \$344.02 for which sufficient supporting documentation was not available.

Sand recommended all employment contracts for personnel not covered under a master contract be reviewed and approved by the Board and the review and approval be documented in the Board meeting minutes. In addition, the Board meeting minutes should document the basis for any individual increases which differ from the increase approved by a master contract. Sand also recommended the Board ensure all reimbursements are reasonable, necessary for District operations, and meet the test of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

The District responded favorably to the recommendations included in the reaudit report. A copy of the reaudit report is available for review on the Auditor of State's website at <https://auditor.iowa.gov/reports/audit-reports/>.

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SIOUX CITY COMMUNITIY SCHOOL DISTRICT
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2019

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Sioux City Community School District

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Officials – Fiscal Year 2019</u>		
Board of Education		
Jeremy Saint	President	2021
Ron Colling	Vice President	2021
Dr. Michael McTaggart	Board Member	2019
Miyuki Nelson	Board Member	2019
David Gleiser	Board Member	2019
Jackie Warnstadt	Board Member	2019
Perla Alarcon-Flory	Board Member	2021
School Officials		
Dr. Paul Gausman	Superintendent	2021
Cyndi Lloyd	Board Secretary	2019
Patty Blankenship	Chief Financial Officer	2019
Ahlers & Cooney	Attorney	Indefinite
<u>Officials – Fiscal Year 2018</u>		
Board of Education		
Mike Krysl	President	2019
Dr. Michael McTaggart	Vice President	2019
David Gleiser	Board Member	2019
Jackie Warnstadt	Board Member	2019
Jeremy Saint	Board Member	2021
Perla Alarcon-Flory	Board Member	2021
Ron Colling	Board Member	2021
School Officials		
Dr. Paul Gausman	Superintendent	2020
Cyndi Lloyd	Board Secretary	2018
Patty Blankenship	Chief Financial Officer	2018
Ahlers & Cooney	Attorney	Indefinite
<u>Officials – Fiscal Year 2017</u>		
Board of Education		
Mike Krysl	President	2019
Dr. Michael McTaggart	Vice President	2019
Paul Gorski	Board Member	2017
John Meyers	Board Member	2017
David Gleiser	Board Member	2019
Jackie Warnstadt	Board Member	2019
Perla Alarcon-Flory	Board Member	2017
School Officials		
Dr. Paul Gausman	Superintendent	2019
Cyndi Lloyd	Board Secretary	2017
Larry Sigel	Chief Financial Officer	Interim
Ahlers & Cooney	Attorney	Indefinite



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Rob Sand
Auditor of State

Auditor of State's Report on Reaudit

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

We received a request to perform a reaudit of the Sioux City Community School District (District) in accordance with Section 11.6(4)(a)(3) of the *Code of Iowa*. As a result, we performed a review of the audit report for the year ended June 30, 2018 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, 2016 through June 30, 2019.

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

1. Obtained and reviewed certain Board policies to determine whether they were sufficient and whether certain District transactions were in compliance with the Board policies.
2. Obtained and reviewed certain employment contracts for proper approval and compared contract amounts to actual payments made during the year to ensure accuracy.
3. Examined selected salary increases to determine whether they were approved by the Board. We also reviewed minutes of Board meetings to determine if contract amounts and/or salary increases were listed in the Board meeting minutes, and whether the meeting minutes included discussions related to the increases.
4. Examined selected reimbursements made to District administrators to determine propriety, whether sufficient supporting documentation was available, and whether the selected reimbursements met the test of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
5. Obtained listing of credit card purchases to determine whether monthly limits were exceeded and examined support for purchases made by selected card holders to determine if the charges were properly supported, reviewed, and approved by the purchaser's direct supervisor.

Based on the performance of these procedures, we determined the Board meeting minutes did not sufficiently document salary increases and did not include approval of final individual pay increases. We also identified inadequate documentation of public purpose for certain expenditures and have developed various recommendations for the District. The inadequate documentation of approvals and discussions in the Board meeting minutes and inadequate documentation of public purpose are described in the Detailed Findings of this report along with our recommendations. 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.

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large "R" and "S".

ROB SAND
Auditor of State

September 20, 2021

SIOUX CITY COMMUNITY SCHOOL DISTRICT

Background Information

We received a citizen's petition to conduct a reaudit of the Sioux City Community School District for fiscal year 2018. The request detailed specific concerns, including:

- approval of certain salary/wage increases by the Board,
- expense reimbursements made to Administrators,
- the use of District credit cards, and
- the independence of the CPA firm which has conducted the District's annual financial statement audits.

As a result of the request, we performed a review of the District's audit report and workpapers prepared by the CPA firm engaged by the District 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 three of the concerns presented for the period July 1, 2016 through June 30, 2019. Further procedures were not warranted for the remaining concern presented because the CPA firm engaged by the District extensively documented the safeguards implemented to address the threats to independence which were identified in accordance with professional standards, including a second review by a partner of the CPA firm who was not previously involved with the District or its audit.

The District had four master employment contracts in place each year for which we performed procedures. The contracts were between the District and the Sioux City Education Association (SCEA); the Sioux City Educational Support Personnel Association (SCESPA); the Operations and Maintenance Employees International Union of Operating Engineers (IUOE) Local 234; and the American Federation of State, County and Municipal Employees AFL-CIO, Local 212 (AFSCME) Bus Drivers Association.

District policy, Series 300, Code 307 defines administrative employees which are exempt from the contracts listed above, including the Associate Superintendent, Directors, Assistant Directors, Principals, and Assistant Principals. These positions include the Director of Curriculum, Instruction and Assessment; the Director of Student Services and Equity Education; the Director of Elementary Education and Title I Services; the Director of Secondary Education and Activities; the Director of Learning Supports; the Assistant Director of Learning Supports; the Director of Technology; the Director of Communications and Community Engagement; the Chief Financial Officer; the Controller; the Director of Human Resources; the Assistant Director of Human Resources; and the Director of Operations and Maintenance. An individual contract was established for each of these positions and they were not included in a master contract. The contracts for each of these exempt positions were reviewed during the reaudit procedures we performed.

The District's policy also states, "As a part of its annual budget development process, the Board shall determine the amount of funds available for total package compensation for all Administrative Employees. Thereafter, the Superintendent shall recommend to the Board for final action individual salary adjustment and bonuses (if any) for Administrative Employees." It also states, in part, "The Superintendent shall be responsible for monitoring the implementation of the evaluation process and verifying that the total package compensation approved by the Board is effectively and accurately implemented."

The Finance Department prepares a spreadsheet each year which is identified as the "cost pool workpaper." The spreadsheet lists all members included in the cost pool by employee group, any changes to the pool and the recommended increases by individual. The maximum salary pool is determined based on the prior year salary pool, any eliminations to the prior year pool, and the determined percentage increase to the salary pool. A recommended pay adjustment is given to each employee to determine the new base pay. Adjustments are then made for individual

circumstances, such as a Doctorate, other special pay, or a recommended lump sum. This amount is to be the new salary for the individual. We obtained and reviewed the cost pool workpaper for the administrative employees for whom separate contracts were established.

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) Approval of Employment Contracts – In accordance with District policy, Series 400, Code 402.4, “Salary schedules and wages for employees not covered by a collective bargaining agreement will be reviewed, amended, and/or reaffirmed, at the discretion of the Board (usually once per year).” The employment contracts for all personnel exempt from a master contract are to be approved by the Board of Education at the Board meetings, and the contracts are signed by the employee and a Board member prior to start date of the contract. We tested contracts for all exempt personnel for proper approval and documentation of such approval in the Board of Education meeting minutes for the period July 1, 2016 through June 30, 2019 and identified the following concerns:

- The Board of Education meeting minutes did not sufficiently document the intended salary increases, and it was not clear who was to receive an increase or the amount of the increase to be awarded to each employee. Any discussion of benefits and compensation plans were also not documented in the minutes.
- There was no formal review or approval of the cost pool workpaper clearly evidenced and no formal approval of the final individual increases noted in the Board of Education meeting minutes. The District’s cost pool workpapers did not contain evidence of approval on individual increases awarded.
- None of the contracts for the members of the Administrative group nor the Superintendent’s contracts were discussed or formally approved in the Board of Education meeting minutes.
- Nine individuals received lump sum bonus payments in lieu of a salary increase during the period tested. The amount of the lump sum bonus paid to each of the nine individuals agrees with the amount specified on the cost pool workpapers provided by the District. These lump sum bonus payments were awarded as a one-time payment of a certain amount to reward the individuals for positive evaluations while also not increasing their ongoing salary. The evaluations were completed by the individuals’ direct supervisor, however, there was no formal review or approval of the cost pool workpaper clearly evidenced and no formal approval of the final individual lump sum bonus payments noted in the Board meeting minutes.
- Six contracts were not signed by the employee and/or a Board member prior to the start of the contract. Of the six contracts, three were for the 2016/2017 contract period, two were for the 2017/2018 contract period, and one was for the 2018/2019 contract period. Additionally, two contracts were signed by the employee and/or Board member prior to the start of the contract but after the required date specified by the contract. Both instances identified were for the 2016/2017 contract period.
- During the 2017/2018 contract year, an employee was transferred from a master contract position into an exempt position. A contract was not prepared and approved for the new position. Instead, a memo was prepared noting the transfer to the new position and the salary for the remainder of the year.

Recommendation – Employment contracts for personnel not covered under a master contract should be reviewed and approved by the Board of Education at a Board meeting. The related minutes should document the approval of each employment contract and include sufficient detail to identify the employee and the approved salary. Any changes made throughout the year to an exempt position should be supported by an employment contract, which has been reviewed and approved by the Board of Education.

In addition, the cost pool workpaper should be reviewed and approved by an independent person, including documentation of any lump sum payment. This review should include the signature or initials of the reviewer along with the date reviewed. Since this cost pool workpaper is being used as the basis for the approved salary for the employment contract, it should also be reviewed and approved by the Board of Education.

Response – Since early 2018, the Board has worked diligently to improve the process by which employment contracts and compensation are reviewed and approved. As the Board has become aware of the procedures in need of improvement, it has timely discussed, evaluated and adopted changes to strengthen its processes. As discussed below, the Board believes that the improvements that were made to this process in the spring of 2018 and the summer of 2019 have addressed the procedural weaknesses identified in bullet points 1 through 4 in the Detailed Findings above.

In the spring of 2018, the Superintendent asked the District's attorney whether the 2017 changes to Iowa Code Chapter 20 required change to the procedures used by the Board for collective bargaining and contract discussions. The District's attorney reviewed the procedure used for FY2018 and noted that, as administrators are not a part of a collective bargaining unit, the administrative salary pool should be approved in open session. No further procedural changes were recommended at that time. The Board followed the recommendation of counsel and on June 11, 2018, after lengthy public discussion approved the administrative salary pool in open session. The Board has maintained this practice in each subsequent year.

In December of 2018, the Board sought further advice of counsel regarding strengthening its contract and salary approval processes. The District's attorney recommended that the Board should take the additional step of reviewing and approving the individual salary amounts for administrators in the upcoming year to ensure compliance with best practices. Following this advice, the Board considered administrative salaries for FY20 on an individual basis at its regular public meeting on June 24, 2019 by inclusion of a list of all administrators by name, position and recommended FY20 salary in the Human Resources Report presented to the Board for discussion and approval. The Board has continued this practice in each subsequent year.

The Board also took these discussions as an opportunity to re-evaluate the District's administrative compensation plan and codify changes to its procedures to ensure that the Board was using appropriate controls and complying with best practices. Following lengthy public discussions across several public meetings and a public work session, the Board adopted *Board Policy 307* on July 15, 2019 to codify the District's Administrative Compensation Plan, including the practice of final Board approval for all administrative salaries each year. In addition, as a result of these discussions, the Board also adopted Board Policy 415 on August 26, 2019 codifying changes to its Human Resources Report process by which individual salaries are approved. As a result, the Board has approved the compensation of each individual administrator in its regular public meetings as part of its Human Resources Report since FY2019.

In addition to foregoing changes, beginning with FY2019, the Board implemented the practice of having the Board President review and individually execute each administrator

contract as an additional layer of oversight and an additional safeguard against issues such as those noted in the 5th and 6th bullet points of the Detailed Findings above.

Going forward, the Board looks forward to making any additional changes necessary to improve its practices, including: (i) providing additional detail in its minutes to make sure that salary approvals are documented with sufficient detail; and (ii) providing the cost pool paperwork to the Board President for review and signature at the time individual administrator contracts are executed.

In addition, the District will implement procedures to ensure that contracts are signed by the employee and the Board President prior to the start date of the contract and before the required date specified by the contract.

Occasionally, an employee is transferred from a master contract position into an exempt position during the contract year. The District will establish procedures to ensure that contracts are prepared and approved for these types of transfers.

Conclusion – Response accepted.

- (B) Incorrect Payroll Calculations – As previously stated, the Board is to approve the cost pool increase for any employees not covered by a master contract. We reviewed the District's cost pool workpapers for administrative employees exempt from master contracts for fiscal years 2017 through 2019 and determined the increases documented on the cost pool workpapers agreed with the increases in the payroll amounts issued to the employees.

We also compared the payroll amounts issued to the employees to the authorized payroll amounts and other terms documented in each individual's contract. During our testing, we identified an instance where an individual left employment earlier than their contract required. Because the individual left employment prior to fulfilling the number of days required by their employment contract, the District appropriately prorated the individual's final paycheck based on the number of days worked. However, during the June 2019 payroll run, the individual received a full paycheck in addition to the prorated payroll check. The paycheck issued in error resulted in \$6,556.08 of improper gross payroll costs paid to the former employee and \$1,085.50 of improper costs for the District's share of FICA and IPERS. The District did not seek reimbursement.

We also identified an instance where an individual began employment after the start of the school year resulting in the individual receiving a prorated contract amount. The individual's prorated contract amount was \$77,612.00; however, they were only paid \$70,556.40, resulting in an underpayment of \$7,055.60. This error occurred due to an input error by the payroll department and was not identified until our fieldwork. The District sent a letter to the individual dated November 24, 2020 informing them of the error and issued a check in the amount of \$7,055.60 dated November 30, 2020.

We did not identify any other payroll amounts which did not agree with contracts.

Recommendation – Board members should implement procedures to ensure any employee who leaves employment prior to the end of the contract date is properly removed from the payroll system. Board members should also implement procedures to ensure any adjustments to established contract amounts be independently reviewed and approved for proper calculation. This review should be documented by the signature or initials of the reviewer and the date of the review.

Response – The District has implemented procedures to ensure that terminated and prorated contracts are paid correctly. The District implemented features within the financial reporting system that were previously not being utilized. These features include the contract

section, summer pay fiscal year accruals, and contract payout. These features help ensure that contracts are properly paid.

Conclusion – Response accepted.

- (C) Reimbursements – 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.

We reviewed 40 non-payroll checks issued to District administrators and 12 non-payroll checks issued to the Superintendent from July 1, 2016 through June 30, 2019 to determine if they were reasonable, supported by adequate documentation, and met the test of public purpose. Reimbursements were classified as reasonable if they were necessary for District operations and met the test of public purpose. Reimbursements were considered unsupported if documentation was not available. We identified the following concerns about the reimbursements tested.

- Twelve checks issued to District administrators totaling \$979.11 were to reimburse for purchases of food, snacks and decorations for various staff meetings including professional development, United Way campaign kick offs, and staff holiday parties. These payments do not meet the test of public purpose.
- Eight checks totaling \$382.11 were issued to the Superintendent as reimbursements for meals he purchased for himself and other District staff members while in Sioux City. While the District views the Superintendent as a liaison between the District and the community, the public purpose served by the reimbursement of meal costs within the District boundaries is not clear.
- One transaction was a \$98.00 reimbursement for mileage to a meeting, however, the supporting documentation for the payment did not include a location of the meeting. As a result, we were unable to determine if the propriety of the mileage claimed and we classified the payment as unsupported.
- Supporting documentation for two transactions totaling \$246.02 was not provided. The transactions were described by District personnel as payments for West High and the individual who maintains the supporting documentation at West High was unable to locate any support. Of the two reimbursements, one totaling \$136.04 was described in the District’s accounting records as “maintenance to lunc” [sic] and the \$109.98 remaining reimbursement was described as “food/golf trip” and “concess supplies.” Because supporting documentation was not available, we were unable to verify these descriptions.

Prior to August 24, 2020, the District had not adopted a formal policy regarding the public purpose of expenditures. District policy, Series 800, Code 800.1, adopted on August 24, 2020 states, in part, “The Board recognizes that District funds are public funds, and as such, should be used to further a public purpose and the overall educational mission of the school community.”

Recommendation – The Board of Education should determine and document the public purpose served by all expenditures before authorizing them. Board members should implement procedures which ensure all expenditures and applicable reports are reviewed as necessary to ensure proper oversight of the use of public funds, in accordance with the District’s policy Code 800.1.

Response – The District will ensure reimbursements will be made only after proper documentation has been provided and public purpose has been established.

Conclusion – Response accepted.

- (D) Mileage Reimbursements – District policy Series 400, Code 431.05 specifies District employees who use their personal vehicles to conduct District business may claim reimbursement, if submitted in accordance with district procedures. District policy Series 400, Code AR431.05 states all requests for expense reimbursements must be submitted within 30 days of incurring the expense and on such forms as required by the District.

We identified seven reimbursements issued to Administrators for mileage incurred within the District during periods which ranged from four to ten months. The reimbursements identified were issued at the end of fiscal years 2017, 2018, and 2019 and individually included miles which ranged from 446.36 to 2,276.71. In addition to not complying with the District's policy which requires reimbursements be submitted within 30 days of incurring the expense, the delay in submitting the mileage claims for up to ten months may have impacted the effectiveness of the review performed for the individual claims.

Recommendation – Board members should ensure procedures are established which ensure compliance with the District's policy Code AR431.05.

Response – The District will ensure reimbursements will be made timely and only after proper documentation has been provided.

Conclusion – Response accepted.

- (E) Use of District Credit Cards – During the fiscal years ended June 30, 2017 and June 30, 2019, the Superintendent's wife accompanied him to an out-of-state conference. During our review of records related to the District's credit card, we determined some of the costs paid for with the credit card were for his wife's meals and transportation costs associated with the conferences. However, these costs were reduced from the reimbursement issued to the Superintendent for costs incurred during the trips which were not paid with the District's credit card. As a result, the District did not incur any additional costs associated with the Superintendent's wife's travel.

The District's policies regarding use of District credit cards and the District's cardholder agreement do not specify the District credit cards should not be used for expenses of a non-employee. Although, the District did not incur any additional costs for the Superintendent's wife's travel, the purchases should not have been made using a District's credit card.

Recommendation – The District should establish a formal policy which prohibits using a District credit card for non-employee travel costs. In instances where a portion of a certain cost is related to a District employee and a portion is related to a non-employee, such as a meal, the total cost should be paid with personal funds and reimbursement subsequently requested for the portion associated with the District employee.

Response – The current practice is that District credit cards are not used for non-employee travel costs. The District will establish a formal policy prohibiting the use of District credit cards for non-employee travel costs.

Conclusion – Response accepted.

Sioux City Community School District

Staff

This reaudit was performed by:

Pamela J. Bormann, CPA, Manager
Ryan T. Jelsma, CFE, Senior Auditor II
Ridge G. Nennig, Assistant Auditor

A handwritten signature in black ink that reads "Annette K. Campbell". The signature is written in a cursive style with a large, stylized "A" and "K".

Annette K. Campbell, CPA
Deputy Auditor of State