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NEWS RELEASE

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FOR RELEASE _____ September 15, 2008 _____

Auditor of State David A. Vaudt today released a report on the Sigourney Community School District (District). The report includes testing performed during the period July 1, 2006 through February 29, 2008. The procedures were performed as a result of the District's Superintendent's concerns regarding the financial position of the District. Specific concerns included declining cash positions and decreasing unspent balance.

Vaudt reported control weaknesses over financial management were identified which resulted in inaccurate financial reports to the District's Board. Inaccuracies were often the result of including bank transactions which had not yet occurred in monthly financial reports to the Board. Vaudt reported improper or unauthorized disbursements were not identified. Vaudt also reported it was not possible to determine if \$560.00 of collections were properly deposited. However, due to the number of transactions processed by the District, it was not possible to review all transactions.

The report includes recommendations to strengthen the District's controls and procedures over financial transactions within the District. Specifically, Vaudt recommended increased segregation of duties, improvements to record-keeping practices and adherence to certain requirements established by the *Code of Iowa*.

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>.

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**REVIEW OF THE
SIGOURNEY COMMUNITY SCHOOL DISTRICT
SIGOURNEY, IOWA**

**FOR THE PERIOD
JULY 1, 2006 THROUGH FEBRUARY 29, 2008**

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Auditor of State's Report

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

At the request of the District's Superintendent, we applied certain tests and procedures to selected financial transactions of the Sigourney Community School District (District) for the period July 1, 2006 through February 29, 2008. We performed initial testing for the period July 1, 2006 through January 31, 2007 and expanded the testing period for specific tests to July 1, 2006 through February 29, 2008. Based on discussions with the Superintendent, the Business Manager and other District personnel and a review of relevant information, we performed the following procedures for the periods identified.

For the period July 1, 2006 through January 31, 2007, we:

1. Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
2. Reviewed District policies and procedures for financial accounting operations to determine if they allow the District to operate in an efficient and effective manner.
3. Reviewed Board minutes to determine any significant actions.
4. Reviewed the District's bank accounts to identify any unusual activity. We also compared selected disbursement listings provided to and approved by the Board to checks drawn on the District's bank accounts to determine if the Board approved all disbursements.
5. Examined available documentation for selected disbursements to determine if they were for appropriate purposes and were properly approved, properly supported and properly coded to the accounting system.
6. Reviewed purchases made with the District's credit card to identify any unusual activity.
7. Reviewed disbursements for a selected pay period to ensure the amounts paid were appropriate.
8. Confirmed certain payments to the District by the State of Iowa to determine whether they were properly recorded and deposited to the District's accounts.
9. Compared receipts from certain receipt books to bank information to determine if collections were properly recorded and deposited.

10. Compared budgeted revenues and expenditures to actual financial activity to determine if significant variances existed and to assess the financial condition of the District.

For the period July 1, 2006 through February 29, 2008, we:

11. Reconciled monthly bank reconciliations and financial control reports prepared by the District's Business Manager to bank statements and mutual fund reports to verify accuracy.
12. Confirmed IPAS Education Investment and Iowa Schools Joint Investment Trust activity to determine the propriety of all deposits and disbursements.
13. Analyzed online and automatic transfers between various District accounts to determine if they were necessary, appropriate and properly recorded in the District's accounting system. We also determined if the amounts transferred were subsequently reimbursed.
14. Reviewed bank activity to identify bank fees charged to District accounts as a result of checks presented to the bank when District balances were not sufficient to honor the checks.

In addition, we:

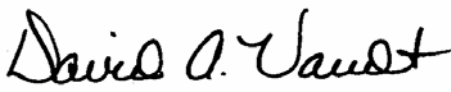
15. Reviewed certain financial reports for the fiscal years ended June 30, 2002 through 2007 to identify any significant spending and enrollment trends.

These procedures identified control weaknesses over financial reporting procedures which resulted in inaccurate financial reports to the District's Board. Inaccuracies to the Board were often the result of including bank transactions in monthly financial reports to the Board which had not yet occurred. We did not identify improper or unauthorized withdrawals or payments from District bank accounts. We identified a receipt for \$560.00 for which we were unable to determine if the collections were properly deposited. However, due to the number of transactions processed by the District, it was not possible to review all transactions.

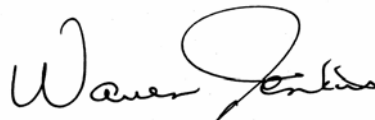
The report includes recommendations to strengthen the District's controls and procedures over financial transactions within the District, including increased segregation of duties, improvements to record-keeping practices and adherence to *Code of Iowa* requirements.

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 financial statements of the Sigourney Community School District, other 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 personnel of the Sigourney Community School District during the course of our review.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 29, 2008

Sigourney Community School District

Background Information

Sigourney Community School District (District) is governed by a 7-member Board of Education whose members are elected on a non-partisan basis. The District serves approximately 640 students residing in Sigourney and surrounding areas. During the 2007/2008 school year, the District employed approximately 61 certified staff and 52 classified staff.

Todd Abrahamson became the District's Superintendent effective July 1, 2006. The Superintendent position is shared with the Keota School District. During the period of our review, the District's Business Manager was Yvonne Pitsch, who had held the position since August 1997. Upon completion of her 2007/2008 school year contract, the Business Manager resigned from her position and accepted a temporary part-time position as Assistant Business Manager for the District. The Business Manager's duties included oversight of the District's financial activity. Specifically, the Business Manager was responsible for the following:

- Making deposits to and reconciling the General Fund, SILO Account, School House Fund and Trust Fund bank accounts
- Purchase order processing
- Signing checks
- Payroll preparation and management
- Board meeting report preparation and participation
- Annual financial report preparation
- General office management
- Human resources management
- Special assignments from the Superintendent

According to the Superintendent, he became concerned with the District's financial position early during the 2006/2007 school year. During December 2006, a representative of a bank at which District accounts were held contacted the Superintendent to inform him of significant overdrafts. Also, he stated the cash balances reported to the Board on the monthly financial control reports prepared by the Business Manager were starting to show a downward trend when compared to the District's cash position the prior year. **Table 1** summarizes the cash balance information presented to the Board for all funds.

Table 1

Month	2005/2006 School Year	2006/2007 School Year	(Decrease)/ Increase
July	\$ 1,004,111.99	666,492.64	(337,619.35)
August	1,191,766.48	686,514.59	(505,251.89)
Sept.	1,119,872.82	724,585.47	(395,287.35)
Oct.	1,760,114.39	1,222,212.25	(537,902.14)
Nov.	1,720,679.94	1,344,122.90	(376,557.01)
Dec.	1,662,504.13	1,318,258.71	(344,245.42)
Jan.	1,538,922.04	1,270,162.09	(268,760.32)
Feb.	1,475,922.92	1,192,061.61	(283,861.31)
March	1,349,325.53	1,273,278.23	(76,047.30)
April	1,859,432.13	1,570,555.44	(288,876.69)
May	1,461,531.44	1,835,974.76	374,443.32
June	627,889.47	1,153,179.37	525,289.90

According to the Superintendent, certain changes were implemented during the school year, such as reduction of staff. There were no direct financial effects from these changes during the 2006/2007 school year. The financial effects of the changes should have taken effect with the beginning of the 2007/2008 school year. However, by the end of the 2006/2007 school year, the cash position started improving again. The Superintendent stated he was unable to determine a direct cause for the improvement.

According to the Superintendent, the District had historically adopted annual budgets which relied on the District's unspent balance to fund the maximum spending authority, causing the unspent balance to decline each year. According to the Superintendent, for the 2008/2009 school year, the District increased the levy per \$1,000 of assessed valuation from \$14.35 to \$16.99. The Superintendent explained the levy amount was low in 2006/2007 and 2007/2008 due to the District's agreement to provide tax relief as a result of prior levy activities. This action contributed to the reduction in unspent balance. In order to recover from the trend of shrinking unspent balance, the District increased its cash reserve levy. The Superintendent stated the District did not levy for cash reserve for the 2004/2005 and 2005/2006 school years.

As a result of these concerns, the Superintendent requested a review of the District's financial management processes. We performed certain procedures detailed in the Auditor of State's report for the period July 1, 2006 through February 29, 2008.

Detailed Findings

These procedures identified control weaknesses over financial reporting procedures which resulted in inaccurate financial reports to the District's Board. Inaccuracies were often the result of including bank transactions which had not yet occurred in monthly financial reports to the Board. Because of certain concerns identified by the Superintendent and our review of controls in place at the District, we reviewed selected transactions to determine compliance with District policies. We did not identify improper or unauthorized withdrawals or payments from the District's bank accounts. We identified a receipt for \$560.00 for which we were unable to determine if the collections were properly deposited. However, due to the number of transactions processed by the District, it was not possible to review all transactions.

As part of our review, we evaluated the procedures used by the District to process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures to provide accountability for assets susceptible to loss from errors or irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable period of time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the District's internal controls.

(A) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We identified recommendations to strengthen controls through increased segregation of duties in the following areas.

(1) Receipts – The District collects money for various purposes. The duties of receiving, depositing and recording the following types of collections in the District's accounting system are not properly segregated.

- **Activity program receipts** – The District uses prenumbered tickets for admission to High School activities. The prenumbered tickets are maintained by the principal, who records the beginning ticket numbers before each High School event on a collections reconciliation (summary) sheet. After personnel collect admissions, they count the collections with the High School principal and complete a summary sheet with the ending ticket numbers and collection amounts to provide to the

school secretary. The school secretary recounts the collections and reconciles her total to the summary sheet. She then prepares a receipt and forwards the deposit to the Central Office for deposit to the bank. The school secretary also prepares receipts for other types of collections, such as proceeds from fundraisers, and forwards the deposits to the Central Office.

For the collections forwarded to the Central Office, the Superintendent's secretary prepares a deposit slip and a receipt. Copies of the deposit slip and the Central Office receipt are sent to the school secretary who reconciles the documents to her records.

However, no one independent of the person recording the deposit to the accounting records ensured the deposit was properly recorded to the correct account in the District's accounting system. According to the Superintendent's secretary, she has recently begun preparing an account balance report from the District's accounting system for the school secretary, who reconciles the report to her records. The school secretary maintains activity account balances for all the activity sub-accounts and reconciles the account balance report to her records each month.

While we observed the documents used by the District, we did not perform procedures to test specific transactions in order to verify the processes described by District personnel. Based on our observations, the processes described appear adequate.

Recommendation – The District should segregate duties for collecting and recording activity program revenues. In addition, the District should also continue to ensure documentation prepared by the individuals collecting admissions, preparing the receipts, making the deposits and recording the collections is initialed by the individuals carrying out the various duties associated with the collection of activity revenues.

- **Nutrition program receipts** – Building secretaries collect money for the Nutrition program and post the amounts collected to the students' accounts. The building secretaries prepare receipts for the collections and retain a copy of the receipt. A copy is also sent to the Central Office with the collections, where the Central Office secretary prepares a receipt, prepares a deposit slip and deposits the money to the bank.

Recommendation – The District should implement procedures to ensure an individual independent of collection and deposit responsibilities reconciles deposits to amounts recorded in the students' accounts to ensure all collections are properly forwarded to the Central Office for deposit. The independent individual should also periodically compare the collections to amounts recorded in the District's accounting system to ensure the collections are properly recorded.

- **Receipts received in the mail** – The secretary in the Central Office opens the mail, restrictively endorses all checks received and lists the amounts received on a deposit slip. The Business Manager prepares a receipt for the amounts collected. The secretary deposits the collections to the District's bank accounts.

Recommendation - The District should implement procedures which ensure a listing of collections received in the mail is prepared as the mail is opened. The individual preparing the listing should not have any other responsibilities for depositing or recording the collections, but should compare the listing to the amount subsequently deposited.

- (2) **Disbursements** – All non-payroll disbursements are supported by purchase orders. District personnel complete purchase orders for items they wish to purchase. The purchase orders are reviewed and signed by the appropriate principal and sent to the Superintendent, who also reviews and approves the purchase orders.

Once the purchase order is approved, the Business Manager sends a copy back to the requesting staff member and the order is made. After the purchase is made, the related invoice is sent to the Central Office and the amount due is entered as an accounts payable in the District's accounting system.

We noted purchases orders are also prepared and approved for disbursements which are not purchased as individual products or units of service, such as utilities. These purchase orders are prepared and approved after the District receives the related invoice.

The Business Manager prepares a check to be mailed to the vendor after the disbursement is approved by the Board. According to the Business Manager, approximately 2 or 3 invoices per month require payment prior to a Board meeting. She stated the invoices are processed and paid without Board approval, but the Board approves the disbursements during the next scheduled Board meeting. These checks are known as prepaid checks because they have been paid prior to Board approval. The District does not have a written policy documenting the circumstances or the types of payments which may be paid prior to Board approval.

District checks require both the Business Manager's and the Board President's signatures. Based on our observations and discussions with the Business Manager, both signatures are applied to the checks with signature stamps by the Business Manager. The signature stamps are kept in an unsecured location in the Central Office.

Because the dual signature requirement is currently satisfied by use of 2 signature stamps which are not adequately controlled, it would be possible for an individual to issue a check and apply the required signatures without Board approval or review from the authorized check signers.

The requirement for dual signatures is an internal control when properly executed. However, the dual signature requirement for check issuance is currently ineffective and adds no assurance of sufficient review by the authorized check signers. Use of 2 signature stamps which are unsecured and located in the same office poses unnecessary risk to the District.

We reviewed disbursements made by the District during a selected month to determine if the Board listing reports included all disbursements made by the District. For the disbursements tested, we identified 18 checks which were issued without Board approval. Therefore, we determined the Board listing reports used to ensure Board approval of all District payments are not complete. The Business Manager, who is responsible for preparing the Board listing reports each month, cited several reasons for exclusion of checks from the listings, including forgetting to run a specific report for the Board meeting and running reports for Board meetings which did not include the full time period necessary to cover all checks.

We also identified 3 checks issued for more than the amount approved by the Board. The Business Manager stated additional invoices from the vendors came in after she prepared the listing but before she prepared checks. As a result, the additional amounts due to the vendors were added to the amounts approved by the Board. Full payment was remitted to the vendors in order to keep account balances current with the vendors.

The unapproved disbursements and those in excess of the approved amounts appeared to be legitimate District expenses and the payments were properly recorded in the accounting system.

Recommendation – The District should implement procedures to ensure the signature stamps are properly safeguarded. They should not be readily available to individuals who also have unlimited access to checks for the District’s accounts.

In addition, the District should implement procedures to ensure all disbursements are properly approved by the Board in a timely manner. The Board should develop a policy which complies with section 279.30 of the *Code of Iowa* and identifies the circumstances in which certain disbursements may be made prior to Board approval.

- (3) **Payroll** - The District’s teachers sign employment contracts prior to the beginning of the new contract year. Prior to signing their contracts, each employee is to verify the accuracy of their contract rate, including salary supplemental payments from the State, by comparing it to the master pay scale listing posted in the teacher’s lounge. Once the contracts are signed and submitted to the Central Office, the Business Manager records pay information in the District’s payroll system along with pay information for hourly and other non-contract employees. The Business Manager also maintains a spreadsheet which lists all personnel contract salaries per month. According to the Business Manager, each month she compares the information in the payroll system to the spreadsheet.

The District’s payroll system automatically calculates monthly salary and deducts withholdings by employee. The payroll system also generates monthly payroll checks or a listing of the amounts which are to be electronically deposited to the employees’ bank accounts. Payroll checks are to include both the Business Manager’s and Board President’s signatures. However, as is the practice for non-payroll disbursements, both signatures are affixed with stamps by the Business Manager and the signature stamps are not stored in a secured location.

The Board approves annual salaries each year but does not approve monthly disbursements. For hourly-wage staff, school principals approve timesheets and submit payroll disbursement requests each month. Staff members in the Central Office do not monitor or review the timesheets and the Board does not approve monthly disbursements to hourly-wage staff.

Recommendation – As previously stated, the District should implement procedures to ensure all payroll duties are properly segregated and the signature stamps are properly safeguarded. They should not be readily available to individuals who also have unlimited access to checks for the District’s accounts.

- (B) **Bank Reconciliations** – The duty of preparing the monthly bank reconciliations is not adequately segregated from other cash handling and recording responsibilities. The bank statements are mailed directly to the Central Office where they are distributed to the individuals preparing the bank reconciliations.

The Business Manager prepares bank reconciliations for 5 of the 7 District bank accounts and the Superintendent’s secretary prepares reconciliations for the remaining 2 District bank accounts. The Business Manager also prepares the District’s monthly financial control report for the Board, which includes the reconciled bank balances. There is no independent review of the bank reconciliations and bank statements to verify the accuracy of the bank reconciliations or the financial control report.

Recommendation – The bank reconciliations for the 7 District bank accounts should be performed or reviewed by an individual without check signing authority or access to the accounting system. If an independent reviewer is utilized, the reviewer should confirm the accuracy of the reconciliation and review adjustments and outstanding transactions to ensure accuracy. All adjustments to reconcile the bank balance to the books should be clearly identified on the reconciliation. The reviewer should also compare the bank reconciliations to the financial control report submitted to the Board each month to ensure accuracy.

(C) Financial Control Reports - In addition to preparing monthly bank reconciliations, the Business Manager prepares a financial control report each month to present to the Board. The report summarizes 8 funds managed out of 7 bank accounts. For each fund, the report summarizes the bank activity, reconciled bank balance and money held in certificates of deposit (CD's), Iowa Schools Joint Investment Trust (ISJIT) and IPASeducation (IPAS). **Table 2** summarizes the funds included in the monthly financial control reports. **Appendix 1** includes an example financial control report submitted to the Board and **Appendix 2** includes an example of a bank reconciliation.

Table 2

Description	Bank Account	Bank
General Fund^	General Fund*	MidwestOne, Keokuk
Activity Fund	Activity Fund	MidwestOne
Management Fund^	General Fund*	MidwestOne, Keokuk
PPEL Fund**	School House Fund	MidwestOne
SILO Fund (Sales tax fund)	SILO Fund	MidwestOne
Debt Fund**	School House Fund	MidwestOne
Nutrition Fund	Hot Lunch Account	Keokuk
Trust Fund (Sigourney School Trust Fund)	Trust Fund	MidwestOne

^ - The General Fund and Management Fund are managed through the General Fund bank accounts.

* - The General Fund is managed through 2 checking accounts. One account is at MidwestOne Bank (MidwestOne) and one account is at Keokuk County State Bank (Keokuk).

** - The PPEL Fund and Debt Fund are both managed out of the School House Fund bank account.

The Business Manager reconciles the School House Fund, the SILO Fund, the Trust Fund and the 2 General Fund bank accounts each month. The Superintendent's secretary reconciles the Hot Lunch Account and Activity Fund bank accounts each month.

For the months of December 2006 through July 2007, we reviewed the CDs' balances, bank reconciliations and financial control reports prepared by the Business Manager, the balances recorded in the District's accounting system and the District's ISJIT and IPAS account balances for each fund. As a result of our review, we identified the following:

(1) Bank to Books – We identified 9 instances in which the “bank balance” reported on the bank reconciliation did not agree with the actual bank balance. Some adjustments were manually noted on the District's bank statement, some adjustments identified accounting errors which weren't corrected until a later date and some adjustments represented outstanding activities on the Keokuk General Fund bank account. According to the Business Manager, the Keokuk reconciling items were summarized prior to beginning the bank reconciliation. Therefore, she

carried forward the reconciled bank balance instead of the actual bank balance plus reconciling items. Reconciling items were only listed on the bank reconciliation for MidwestOne accounts.

Table 3 summarizes the bank balances shown on the bank reconciliations prepared by the Business Manager and the actual bank balance reported on the bank statement.

Table 3

Reconciliation Period	Fund	Bank Statement	Bank Reconciliation	Difference	Explanation
December 2006	General	\$ 85,026.73	94,271.65	9,244.92	*
December 2006	Debt/PPEL /SILO	11,638.21	1,376.42	(10,261.79)	Adjustments due to loans between funds and anticipated transfer.
January 2007	General	140,629.34	145,426.07	4,796.73	*
January 2007	Debt/PPEL /SILO	38,297.87	33,501.14	(4,796.73)	*
January 2007	Activity	67,961.39	68,105.05	143.66	ISJIT interest which should be reported in ISJIT balance, not checking balance.
March 2007	General	73,524.51	72,611.81	(912.70)	^
April 2007	Activity	54,249.02	53,336.32	(912.70)	^
June 2007	General	616,894.89	375,540.76	(241,354.13)	~
July 2007	General	143,690.69	130,010.67	(13,680.02)	~

* - Adjustment noted on bank statement.

^ - Transfer to wrong account.

~ - The amounts shown on the reconciliation did not include the reconciling items for the District's funds held in the Keokuk bank account for payroll taxes.

Recommendation - All adjustments to reconcile the bank balance to the District's accounting system should be clearly listed on the monthly bank reconciliation and the reconciliation should be limited to activities which actually occurred or were recorded in the month of the reconciliation report. Anticipated transactions should not be included in the reconciliation reports. Errors which will later be corrected should be clearly listed on the reconciliation report.

(2) Books to Financial Control Report - The monthly financial control report the Business Manager provides to the Board is the Board's primary financial summary for use in making District decisions. Therefore, it is important to ensure the accuracy of the report. However, for the 8 monthly reports we reviewed, we identified 7 variances between the District's financial records and the financial control report balances reported to the Board.

As shown in **Exhibit A**, the variances were a result of adjustments not included on the bank reconciliations. These adjustments include future (planned) transactions, adjustments to account balances to move a loaned fund balance back to the originating fund and posting variances. Regardless of the reason, the financial control report used for making District decisions should reflect the actual balance per books for the time period specified.

Recommendation - The District should implement procedures to ensure the financial information presented to the Board each month is accurate. The monthly financial control reports should agree with the reconciliations between the District's accounting records and bank balance each month and report the true balance of the District's accounts. Anticipated deposits or transfers should not be included in the reported available funds on the financial control report.

In addition, the \$14,000 loan to the Nutrition Fund from the General Fund should be properly included in the District's accounting system until it is repaid.

(D) IPAS/ISJIT to Financial Control Report - IPAS is an investment program specifically designed for school districts. The program provides higher interest earnings than typical checking accounts but has many of the same functions as online banking, such as 24/7 online access and instant transfer capabilities. ISJIT is a similar investment program specifically designed for schools to combine member investment efforts to allow more efficient investing for the group than may be available for a single district.

As illustrated by **Appendix 1**, the Business Manager provides IPAS and ISJIT summary data to the Board each month as part of the financial control report. We compared the amounts reported to the Board for IPAS and ISJIT to confirmations obtained from IPAS and ISJIT and identified significant differences. **Exhibit B** summarizes the differences identified.

We discussed each of the differences with the Business Manager, who explained IPAS interest earned in April, for example, is not posted to the District's IPAS account until the first week in May. Since the interest was accrued in April, the Business Manager postdates the deposit to April even though the interest is not recorded in the accounting system until May. According to the Business Manager's explanation, the only adjustments to the month-end total should be the addition of the accrued interest for the month.

As shown in **Exhibit B**, we identified significant differences between actual IPAS account balances and the financial control report in addition to the monthly interest adjustment. Specifically, we identified the following during our review of financial control reports for the months of December 2006 through June 2007:

- Interest accrued and reported in the first week of the following month was not included in the financial control report for the month of May 2007.
- A \$17,154.85 IPAS transfer to the SILO account from the General Fund account on January 3, 2007 was included in the financial control report for December.
- We identified 6 postdated transfers to checking accounts where the transfer was recorded at the end of a month but was not physically transferred until the following month.
- We identified 3 transactions occurring within a month which were not included in the Board report for the month.
- As previously stated, we identified a \$14,000 loan to the Nutrition Fund from the General Fund added to the General Fund IPAS balance reported in the financial control report to the Board. This should not have been included in the IPAS General Fund account.

The December 2006 financial control report included a \$37,102.90 transfer made on January 8, 2007 from the SILO IPAS account to the SILO bank account (the sum of a \$25,000 transfer and a \$12,102.90 transfer). However, only the \$25,000 transfer was included in the reconciliation for December. Both transfer amounts were recorded in the District's accounting system with a posting date of December 31, 2006.

We were unable to identify a consistent pattern of reporting and it is apparent postdating transactions in the District’s accounting system is a common practice at the District. Including transactions occurring after the reported time period resulted in inaccurate reports to the Board. In some cases, it was unclear how or why some transactions were included and others were not included.

Recommendation - The District should implement procedures to ensure:

- The financial control report for IPAS and ISJIT represent transactions in the month of the reconciliation only and do not include transactions occurring in the following month unless they were recorded in the reconciliation period. Although it could be reasonable to include interest which accrued during the month but was not deposited until the beginning of the following month, reporting in such a manner should be done in a consistent manner.
- Postdating entries to the books should be limited to fiscal year end transactions required to meet accrual requirements. It is unnecessary to postdate transfers and interest earnings on a monthly basis. This process has led to inconsistencies and discrepancies between monthly bank statements and financial control reports. In order to provide the Board with the most accurate financial information, postdating activities should be limited.
- The District should work with Software Unlimited to ensure there is a tracking mechanism to determine the actual entry date of transactions. In addition, the software should track the users who make the entries. These controls incorporate accountability and provide important transaction information.

(E) Transfer Activity – We identified significant transfer activity during our review of District bank statements. According to the Business Manager, many of the transfers are completed automatically by the District’s bank because the District authorized overdraft protection of the General Fund checking account. As a result, funds are automatically transferred from the Activity Fund checking account to cover deficit balances in the General Fund checking account. We determined the District’s bank made 21 transfers to the General Fund checking account from the Activity Fund checking account between January 1, 2006 and December 31, 2006.

Table 4 demonstrates the variances associated with not recording transfers between accounts in the District’s accounting system. As illustrated by the **Table**, the Activity Fund bank balance on August 31, 2006 was \$7,579.35. However, the Business Manager added back \$43,095.33 of funds transferred to the General Fund during August to the reconciled Activity Fund balance, even though the money was not returned to the Activity Fund until September 25, 2006. As a result, the balances reported to the Board were improperly stated.

Table 4		
Date	Description	Amount
8/31/06	Activity Fund bank balance	\$ 7,579.35
8/23/06	Add: Bank transfer (Activity Fund to General Fund) to cover deficit balance	20,887.84
8/24/06	Bank transfer (Activity Fund to General Fund) to cover deficit balance	10,784.30
8/25/06	Bank transfer (Activity Fund to General Fund) to cover deficit balance	5,504.67
8/28/06	Bank transfer (Activity Fund to General Fund) to cover deficit balance	5,918.52
8/31/06	Activity Fund bank balance used for bank reconciliation	<u>\$ 50,674.68</u>

After each automatic bank transfer, the Business Manager returned the funds to the Activity Fund checking account by making an online transfer. The Business Manager is the only District employee authorized to make online transfers. The automatic transfers were not recorded in the accounting system. Therefore, The Business Manager made adjustments outside of the bank reconciliations to report the transferred funds in the originating account, even if they were physically located in another account at the time of reconciliation.

We also identified unusual and excessive transfer activities. For example, at 8:32 AM on July 13, 2006, the Business Manager transferred \$40,000 from the Activity Fund checking account to the General Fund checking account. At 8:33 AM on the same day, an entry was made on-line which caused the transfer to be reversed 4 days later. We also identified significant transfer activity occurring after normal business hours, as late as 10:30 PM, and during weekends.

The deficit balances and subsequent bank transfers could have been avoided by keeping adequate funds in the General Fund checking account. The General Fund IPAS account receives all state funding and the current procedure is to transfer funds from the General Fund IPAS account to the General Fund bank account when the bank account balance gets low. The Business Manager explained this process is in place to take advantage of higher interest earnings offered through holding funds in the IPAS account. However, it is important to evaluate the process and make adjustments if it results in insufficient funds to cover daily operations.

During 3 months in 2006, automatic transfers from the Activity Fund to the General Fund bank accounts were not sufficient to cover outstanding checks written against the General Fund bank account. As a result, the General Fund bank account temporarily maintained a negative balance and incurred overdraft fees and, in 2 cases, resulted in the Activity Fund having a negative balance as well. This sometimes resulted in overdraft fees to the Activity Fund.

The Superintendent stated he instructed the Business Manager not to allow deficit balance transfers to occur and, in 2007, there were no automatic bank transfers to cover deficit balances. Instead, the Business Manager made regular transfers from the General Fund's IPAS account to the General Fund bank account to maintain a positive account balance in the checking account. There were only 3 overdraft charges to District accounts in 2007. It appears it was necessary to make the transfers from the IPAS account because a significant portion of the District's revenues were deposited directly to the IPAS account rather than initially placing the funds in the General Fund checking account and then transferring any portion which wasn't immediately needed to meet District expenses to the IPAS account.

In the February 2008 bank statements, the last we reviewed, we identified significant deficits in the General Fund checking account which required 3 separate automatic transfers totaling \$62,680.48 from the Activity Fund checking account to cover the deficit balances in the General Fund bank account.

Recommendation – The District should implement procedures to ensure District bank accounts are not in a deficit position. Although it is permissible to use overdraft protection to avoid bank fees, it should not be relied upon on a routine basis. Transfers resulting from overdraft protection should not occur on a regular basis.

The District should consider eliminating the multiple checking accounts and operating out of 1 primary District account. The accounting system software, Software Unlimited, separately manages funds and maintains account balances for each cost center. The District's use of multiple checking accounts has resulted in overdraft fees, reporting errors and excessive administrative burden. By pooling District funds into 1 account, the District will ensure sufficient cash balances are readily available.

In addition, to simplify account management activities and the need for frequent transfers, electronic deposits from the State should be made directly to the General Fund bank account rather than the General Fund IPAS account. If funds in the bank account are much larger than anticipated expenditures, excess funds can be transferred to the IPAS account. This change would reduce administrative burden and aid in avoiding overdraft fees at the bank. According to District officials, they have recently transferred the IPAS and ISJIT balances to the related checking accounts. In addition, the IPAS accounts have been closed. However, the ISJIT accounts will be used to invest District funds not immediately needed to meet District expenses.

- (F) Overdraft fees** – We identified \$500 in overdraft fees assessed to the District between June 1, 2006 and February 29, 2008 for 20 overdrafts which occurred in the District’s 7 bank accounts. According to the District’s bank statements, 86 disbursements were made when insufficient funds were available, which could have resulted in fees of \$2,150 at a rate of \$25 per overdraft. However, the bank often assessed only a single \$25 fee per day if multiple overdrafts occurred during the day.

After significant overdrafts continued, the bank issued a letter to the District dated December 26, 2006 which stated overdraft fees would be enforced for each overdraft if they continued. As stated previously, upon direction from the Superintendent, the Business Manager improved bank account balance management in 2007. After December 2006, the District incurred 3 overdraft fees associated with the SILO account in 2007.

Recommendation – The District should continue to ensure bank account balances are sufficient to avoid overdraft fees. Limiting transfer activity and keeping adequate funds in the bank accounts rather than keeping too much in the IPAS or ISJIT accounts will reduce administrative burden and provide better financial management. Further, elimination of multiple checking accounts would reduce the risk of individual bank account overdrafts.

- (G) In-house loans** – During fiscal year 2007, the Business Manager made a \$14,000 loan from the General Fund to the Nutrition Fund. We were unable to locate authorization by the Board for the loan. The loan was made in 2 parts. On July 31, 2006, \$8,000 was recorded and \$6,000 was recorded on October 30, 2006. The loan was repaid to the General Fund from the Nutrition Fund on June 30, 2007 with check number 4688. However, the \$14,000 loan was not properly recorded in bank reconciliations and financial control reports to the Board. We identified the following discrepancies during our review:

- Each month, the Business Manager adjusted the Board report to show the \$14,000 loan balance in the General Fund although this amount was actually in the Nutrition Fund bank account. This adjusting entry was not included in the monthly reconciliation report or itemized on the financial control report to the Board.
- In April 2007, the \$14,000 loan was included in the General Fund IPAS/ISJIT total on the financial control report and removed from the Nutrition Fund balance, even though the amount was never in the ISJIT or IPAS account.
- In May 2007, the balance per books for the Nutrition Fund was reported as \$34,294.67, but the actual bank balance adjusted for outstanding checks and the \$14,000 loan was \$20,294.67, a difference of \$14,000. During this month, the \$14,000 was included in the balance per books for the Nutrition Fund and in the reconciled bank balance for the General Fund.

Recommendation – Since the \$14,000 loan was adjusted in the District’s accounting system, it should have been included in the balance for the Nutrition Fund each month until the repayment had been made. Although it was a loan and the General Fund would eventually recover the funds, the funds were actually in the Nutrition Fund.

The adjustments to move the \$14,000 to the General Fund from the Nutrition Fund each month were not included in the monthly reconciliations but were reported on the financial control reports. The financial control report to the Board should match the amounts recorded in the District's accounting system each month.

- (H) Activity Fund Controls** – During the period July 1, 2006 through January 31, 2007, we reconciled Activity Fund receipts to Activity Fund deposits. During this review, we identified 2 receipts we could not tie to bank deposits. The Business Manager was able to explain the circumstances for the first receipt and we found the explanation to be reasonable.

The second receipt we could not tie to bank deposits was receipt number 6931 for \$560 for the volleyball Activity Fund account written on July 19, 2006. The \$560 was not deposited to the bank. However, within the District's accounting system, \$560 was deposited to the volleyball account. When the deposits to the bank for July did not agree with the District's accounting system, \$560 was erroneously deducted from the wrestling account instead of the volleyball account.

According to the Business Manager, the \$560 deposit was included on receipt number 6932 totaling \$580. She stated the \$560 receipt should have been voided and the \$580 deposit included the \$560 deposit along with a \$20 deposit from another party for volleyball. The \$580 deposit to the bank was recorded in the baseball account within the District's accounting system on July 25, 2006. The \$580 was reversed out of the baseball account on September 28, 2006 and moved to the volleyball account.

While the Business Manager's explanation is possible, it cannot be supported by the District's records. As a result, we are unable to determine if the \$560 was properly deposited. While the volleyball account was increased \$560 and the wrestling account was decreased \$560, controls did not identify the unvoided receipt or the incorrect Activity Fund balances in the accounts.

Recommendation – As previously stated, segregation of duties between the responsibility of handling and recording collections will help ensure collections are properly deposited and recorded and any errors are identified and properly corrected in a timely manner. The District should implement procedures to ensure all duties are properly segregated to the extent possible.

The District should also correct the erroneous entries identified during the review. The volleyball account and wrestling account should be adjusted to return \$560 to the wrestling account from the volleyball account.

- (I) Computer System Controls** – Currently, controls over access to computers used in the Central Office are not adequate. All Central Office personnel have access to the District's electronic accounting system, Software Unlimited. The accounting system currently does not track user entries and the individual preparing specific transactions cannot be determined. In addition, the software allows users to specify the posting date so the posting date shown in the accounting system can be different than the actual entry date.

Personnel are not required to have user logins or restrictive password protection to ensure only authorized users can access the system. Each computer in the Central Office can open and operate the accounting system without the use of a login password. According to the Business Manager, she uses the computer typically used by the Superintendent's secretary to process accounting transactions when the secretary is absent from the desk at the front of the office. She uses this desk and computer so someone is in the front part of the office while the secretary is gone.

Recommendation – The District should implement procedures to ensure access to the accounting system is restricted to authorized users through implementation of user logins and passwords. In addition, the accounting system should track system entries by user and should track actual transaction entry dates as well as posting dates. Implementation of such controls will assist in monitoring and tracking user entries and improve oversight controls.

- (J) **Unclaimed Checks** – During our review of monthly bank reconciliations, we identified outstanding checks which never cleared the bank but eventually were removed from the outstanding check listing. Some of the checks were voided and rewritten, but some were written off after remaining unclaimed for an extended period. We identified 2 checks to individuals which were not claimed and which the Business Manager wrote off. The Business Manager explained the parties apparently lost the checks and never requested a replacement check.

Chapter 556 of the *Code of Iowa* requires entities to check their records each year and turn over funds unclaimed after their dormancy period (unclaimed check dormancy period is 3 years) to the Treasurer of State. Entities are required to make a reasonable effort to contact the parties who have not claimed their checks to attempt to remit payment. If those efforts fail, the entity is required to remit the funds to the Treasurer of State. The unclaimed property becomes part of the Great Iowa Treasure Hunt. We determined 1 of the unclaimed checks written off was to the Superintendent's secretary, who works in the same office with the Business Manager.

Recommendation – The District should make a reasonable effort to contact parties who have outstanding checks and remit payment. If the District is unable to remit payment within the dormancy period, unclaimed funds should be forwarded to the Treasurer of State in accordance with the *Code of Iowa*.

- (K) **Electronic Check Retention** – Section 554D.114 of the *Code of Iowa* allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check, as required.

Recommendation – The District should obtain and retain an image of both the front and back of each cancelled check in accordance with the *Code of Iowa* to ensure adequate internal controls.

- (L) **Dual Signature Checks** – As stated previously, the District requires dual signatures on each check written against its accounts. We identified 1 check which cleared the bank with only 1 signature. On January 25, 2007, check number 4750 from the Hot Lunch Account in the amount of \$3,285.22 to Seabury and Smith cleared the bank with only 1 signature from the business office secretary. Since it was a payroll related expense, it was not reported to the board for approval. We determined the payment was proper and reasonable in comparison to other payments to the vendor.

Recommendation – While this was an isolated occurrence, the District should ensure adequate authorization of disbursements in accordance with District requirements.

**Review of the
Sigourney Community School District**

Exhibits

Review of Sigourney Community School District
 Comparison of District Balances per the Bank
 and the District's Accounting System
 For the period July 1, 2006 through February 29, 2008

Month	Account/Fund	Balance		Difference
		Per the Bank	Per the District's Accounting System	
April 2007	General	\$ 190,987.53	191,037.53	(50.00)
April 2007	General IPAS	527,029.75	513,029.75	14,000.00
May 2007	General	359,859.54	120,859.54	239,000.00
May 2007	General IPAS	629,038.60	1,050,880.75	421,842.15
May 2007	Activity	87,170.78	64,470.77	22,700.01
May 2007	Nutrition	13,476.10	34,294.67	(20,818.57)
June 2007	General	129,943.42	130,303.42	(360.00)

Explanation

Extra accounts payable amount of \$50 was incorrectly posted to April and, therefore, was added to books but not included in the financial control report.

\$14,000 outstanding loan to Nutrition Fund mistakenly included in the General Fund IPAS balance.

The Business Manager stated she assumed a \$225,000 deposit to checking was incoming from the IPAS account. However, the deposit to checking never occurred. An additional \$14,000 variance was due to adding the balance of an outstanding loan back to the General Fund balance reported to the Board, even though it had not yet been repaid. The Business Manager stated the balance per books and the financial control report should have been \$134,859.54. However, the \$14,000 outstanding loan should not have been included in the available balance for the General Fund until it was repaid.

The Business Manager stated she assumed a \$225,000 deposit from IPAS to checking would occur, and she included a future transfer of \$200,000 to checking on 06/05/07 in the May balance. She stated the balance on both reports should have been \$854,038.60.

The Business Manager stated she made a posting correction after preparing the financial control report. The Business Manager stated the balance of both reports should have been \$64,487.27.

The Business Manager stated additional checks written in June were posted to May and included in the bank reconciliation after the Board report was prepared. She stated the reported balance for both reports should have been \$20,294.67.

The Business Manager stated a check written in July was posted to June. The financial control report balance should have been \$130,303.42.

Review of Sigourney Community School District
 Comparison of Balances per IPAS/ISJIT and the
 Financial Control Reports
 For the period July 1, 2006 through February 29, 2008

Month	Fund	Account Balance for IPAS/ISJIT	Financial Condition Report	Difference	Interest recorded at the first of following month
December 2006	General/Management	\$ 335,753.95	320,533.05	15,220.90	1,933.95
December 2006	SILO/School House	625,046.94	618,842.16	6,204.78	1,640.37
February 2007	General/Management	166,272.57	166,980.65	(708.08)	708.08
February 2007	Activity	34,264.95	34,135.03	129.92	-
February 2007	SILO	622,637.32	624,131.75	(1,494.43)	1,494.43
March 2007	General/Management	252,041.95	232,699.87	19,342.08	657.92
April 2007	General/Management	511,788.96	527,029.75	(15,240.79)	1,240.79
May 2007	General/Management	1,051,155.15	629,038.60	422,116.55	2,883.45
May 2007	SILO	395,931.60	444,432.57	(48,500.97)	-
June 2007	General/Management	378,955.84	164,731.32	214,224.52	3,013.33
June 2007	SILO	396,286.78	214,383.15	181,903.63	858.52
Total		<u>\$ 4,770,136.01</u>	<u>3,976,937.90</u>	<u>793,198.11</u>	<u>14,430.84</u>

Following month adjustment	Transaction within month not reported	Other adjustment	Sum of adjusting entries	Explanation and Additional Information
(17,154.85)	-	-	(15,220.90)	The \$(17,154.85) adjustment is a transfer to the SILO IPAS account from the General IPAS account on 01/03/07.
(7,845.15)	-	-	(6,204.78)	The \$(7,854.15) adjustment is the net of a 01/03/07 transfer of \$17,154.85 to the SILO IPAS account from the General IPAS account and a 1/8/07 transfer of (\$25,000) to the SILO checking account.
-	-	-	708.08	The difference is interest recorded the following month.
-	(129.92)	-	(129.92)	02/28/07 interest earned but not included on Board report.
-	-	-	1,494.43	The difference is interest recorded the following month.
(20,000.00)	-	-	(19,342.08)	04/03/07 transfer of \$20,000.00 to checking was included in the March report to the Board.
-	-	14,000.00	15,240.79	The Nutrition loan was reported in the IPAS/ISJIT amounts for the month. It was never recorded in these accounts.
(200,000.00)	(225,000.00)	-	(422,116.55)	A 05/30/07 State deposit of \$225,000.00 was not reported. A 06/01/07 interest payment of \$2,883.45 was reported and a 06/05/07 transfer to checking of \$200,000.00 was recorded.
50,000.00	(1,499.03)	-	48,500.97	Includes 06/05/07 transfer of \$50,000.00 but does not include 05/01/07 interest earned of \$1,499.03.
(217,237.85)	-	-	(214,224.52)	Includes 07/11/07 transfer to SILO IPAS account of \$17,237.85, 07/12/07 transfer to checking of \$200,000.00 and \$3,013.33 of interest.
(182,762.15)	-	-	(181,903.63)	Includes 07/11/07 transfer from General IPAS of \$17,237.85, transfer to checking on 07/03/07 of \$200,000.00 and \$858.52 of interest.
(595,000.00)	(226,628.95)	14,000.00	(793,198.11)	

Review of Sigourney Community School District

Staff

This review was performed by:

Annette K. Campbell, CPA, Director
Tina R. Stuart, Senior Auditor
Shelley M. Klingbeil, Staff Auditor



Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

Review of Sigourney Community School District

Example Financial Control Report

FINANCIAL CONTROL SHEET
JANUARY 31, 2007

	GENERAL	ACTIVITY	MANAGEMENT	PEEL	SILLO	DEBT	NUTRITION	TRUST
BEGINNING CASH BALANCE	546,922.49	100,855.96	(1,761.86)	11,070.13	625,727.48	10,937.48	7,017.91	17,589.10
+ STATE AID	279,778.00							
+ PROPERTY TAX	22,662.97		966.84	558.98				
+ISCAP								
+OTHER STATE MONEY	31,164.25							
+OTHER	24,176.98	15,621.92		11.32	2,628.21	8.07	23,575.44	24.09
- PAYROLL	(375,609.78)						(10,880.99)	
-ACCOUNTS PAYABLE	(41,032.31)	(11,168.06)			(4,796.73)		(5,885.80)	
ENDING CASH BALANCE	488,062.60	105,309.82	(795.02)	11,640.43	623,558.96	10,945.55	13,826.56	17,613.19
LAST YEAR CASH BALANCE	730,451.13	124,718.55	(4,474.89)	139,222.98	390,101.89	139,275.48	2,114.13	17,513.14
ENDING CASH BALANCE SUMMARY								
CHECKING	153,402.97	66,318.45	(795.02)	10,273.34	14,197.83	9,029.97	12,981.06	95.54
CD'S	200,000.00	5,000.00						11,800.00
ISJIT/IPAS (SAVINGS)	134,659.63	33,991.37		1,367.09	609,361.13	1,915.59	845.50	5,717.62
ISCAP								
ENDING CASH BALANCE	488,062.60	105,309.82	(795.02)	11,640.43	623,558.96	10,945.56	13,826.56	17,613.16

Review of Sigourney Community School District

Example Bank Reconciliation

Sigourney CSD
02/03/2007 11:42 AM

Check Reconciliation
JAN 2007 - GEN/MGMT FUND

UserID: YRP

Check Number	Description	Date	Amount	
Checking Account: 1				
	Statement Balance	01/31/2007	145,426.07	
126032	ARVIDSON, MELINDA	01/19/2007	1,973.30	
126034	CONARD JARMES, JACI	01/19/2007	2,407.14	
126049	BRADLEY, BETTY	01/19/2007	83.11	
126059	PERKINS, PAMELA	01/19/2007	239.35	
126062	STRONG, KIMBERLY	01/19/2007	960.73	
132458	HAMMES, KATHIE	06/30/2006	12.15	
132603	PEYTRAL PUBLICATIONS, INC	08/14/2006	65.40	
134889	HANDWRITING WITHOUT TEARS	11/13/2006	23.60	
134962	BRUNO, KAREN	12/11/2006	25.50	
135040	IOWA CHORAL DIRECTORS	12/29/2006	32.00	
135041	SE ICDA	12/29/2006	32.00	
135059	FAIRFIELD PEST CONTROL	01/10/2007	250.00	
135060	FISHER, BARBARA	01/10/2007	11.00	
135117	MAXXUM	01/20/2007	342.84	
35118	UNITED STATES POSTAL SERVICE	01/31/2007	360.00	
	<u>Statement Balance</u>			Outstanding Total
	145,426.07			Balance on Books
				38,607.95

607
 179074
 GL
 139,402.97
 < 795.027

 138,607.95

