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FOR RELEASE _____ November 5, 2010 _____

Auditor of State David A. Vaudt today issued a letter to the Colo-Nesco Community School District as a result of reaudit procedures performed at the request of the Superintendent pursuant to Chapter 11.6(4)(a)(2) of the Code of Iowa. The reaudit procedures addressed certain issues identified for the period July 1, 2007 through June 30, 2008, as well as certain issues applicable to prior and subsequent periods.

Vaudt recommended the District implement procedures to ensure all activity is recorded in the financial accounting system timely and monthly book balance to bank balance reconciliations are performed, documented and retained. Vaudt also recommended the District review the Enterprise, Child Care Fund to ensure fees charged for preschool and daycare will cover the cost of operating the program.

Additionally, Vaudt recommended the District improve segregation of duties over the accounting system, receipts and disbursements, including timely and accurate reconciliations.

A copy of the letter is available for review at the District, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/0830-1359-T00Z.pdf>.

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Auditor of State's Report on Reaudit

To the Board of Education of the
Colo-Nesco Community School District:

We received a request to perform a reaudit of the Colo-Nesco Community School District (District) under Chapter 11.6(4)(a)(2) of the Code of Iowa. As a result, we performed a review of the fiscal 2008 audit report and workpapers prepared by the District's certified public accounting firm to determine whether the CPA firm may have 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 limited tests and procedures to selected accounting records and related information of the Colo-Nesco Community School District for the period July 1, 2007 through June 30, 2008. We also inquired and performed procedures for certain items to determine practices applicable to prior and subsequent periods.

The procedures we performed include reviewing fund activity posted to the District's General Fund, Special Revenue, Management Fund, Enterprise, School Nutrition Fund and Enterprise, Child Care Fund. We also reviewed the District's bank statements and available related reconciliations. Based on the performance of the procedures described above, we have the following findings and recommendations for your review and consideration.

Financial Reporting Errors

The District does not perform a year-end closing of the financial accounting records. This permits the District's Business Manager to enter transactions at any time for previous fiscal years. The District's Business Manager confirmed changes were made periodically and subsequent to fiscal year-end and documentation of the dates and amounts of the journal entries were not maintained.

Because of this, the District has been and continues to be unable to reconcile the bank balances to the District's book balances. Subsequent to the fiscal year 2008 audit, the District engaged its fiscal year 2008 auditor (predecessor auditor) to assist the District in reconciling its books. We attempted to utilize documentation provided by the predecessor auditor and information provided by the District's Business Manager. However, the documentation provided by the District's predecessor auditor was not useful since the documentation did not include the dates, check numbers or other relevant details of the amounts used to reconcile as of June 30, 2009. Also, since the year-end financial information has been changed periodically by the District's Business Manager without supporting documentation being maintained, reconciliation was not possible. We were provided a reconciliation at June 30, 2006, at which time the District's books purportedly reconciled to the bank. However, when we obtained a report identifying the balances as of June 30, 2006, the District's book balances did not agree to the reported book balances per the reconciliation since the books were never "closed", as described above.

The District has not performed a monthly bank reconciliation since June 30, 2006.

We identified numerous adjustments required to reconcile the District's balances. Since reconciliations were not performed, and since the District is unable to reconcile the bank balances to the District's book balances for the reasons previously described, several significant net adjustments to the District's book balances and transfers between bank accounts need to be approved by the Board of Education and recorded by the District's Business Manager to permit reconciliation. We also identified numerous accounts receivable and other posting errors for fiscal years 2007, 2008 and 2009 which are reflected in the following adjustments and transfers and are included in Exhibit A.

The detailed adjustments by fund and bank account transfers are included in Exhibit A and summarized as follows:

- General Fund – a net adjustment of \$463,159.
- Special Revenue, Management Fund – a net adjustment of \$22,161.
- Enterprise, School Nutrition Fund – a net adjustment of \$39,844.
- Enterprise, Child Care Fund – a net adjustment of \$59,931.
- A transfer of \$11,600.96 from the "Schoolhouse" bank account to the District's general banking account.
- A transfer of \$3,374.89 from the District's general banking account to the Student Activity Fund bank account.

Additionally, as previously noted, the District hired its fiscal year 2008 auditor (predecessor auditor) to assist in reconciling the bank balances and District book balances for fiscal year 2009. Since the District does not close the financial accounting records at the end of each year, we were unable to determine if the reconciliation of the bank balances to the District's book balances was proper. We noted the following:

- The beginning fund balances per the reconciliation could not be verified to the District's general ledger.
- The monthly revenues and expenses from the reconciliations did not agree to the revenues and expenses posted in the District's general ledger.
- Certain outstanding checks on the July 2008 "bank reconciliation" were not identified on the District's check reconciliation report. Likewise, certain checks on the District's check reconciliation report were not listed as outstanding checks on the "bank reconciliation."
- Amounts shown as deposits in transit on the July and August 2008 "bank reconciliations" appear as deposits in transit in subsequent months. Due to a lack of documentation, we were unable to determine the composition of deposits in transit. Typically, it is unusual for deposits in transit to remain as a reconciling item from month to month.
- Outstanding checks totaling \$18,050.19 at June 30, 2009 and payable to the District and to Alliant Energy are old and unlikely still outstanding. We were unable to locate the electronic funds transfer for these amounts.

- The predecessor auditor engaged by the District to reconcile the bank and book accounts recommended correcting entries. While we were able to obtain a copy of the adjusting journal entries, the Business Manager was unsure whether these entries had been made. We were unable to determine whether the correcting entries had been made due to a lack of documentation provided by the predecessor auditor and/or maintained by the Business Manager.
- The District included certain checks totaling \$91,544.25 as outstanding at June 30, 2009. However, the checks were written July 19, 2009 and backdated to June 30, 2009 on the financial accounting system.
- The District assigns check numbers to electronic funds transfers making it difficult to identify and distinguish actual outstanding checks from electronic funds transfers.

Recommendation – The District should implement procedures to ensure all activity is recorded properly and accounting periods are properly closed to prevent backdating and posting of transactions and to permit timely and accurate reconciliations.

To improve financial accountability and control, the book and bank balances should be reconciled monthly and the reconciliations should be retained. Reconciliations should be independently reviewed and approved. Any variances should be investigated and resolved in a timely manner. Outstanding checks should represent checks written prior to the end of the period which had not cleared the bank by the end of the period. Electronic funds transfers should be recorded in the District's records but not assigned check numbers since the payments are not made by checks.

We cannot overemphasize the importance of performing timely and accurate reconciliations. Failure to properly reconcile the District's records results in inaccurate and unreliable financial information for the Board of Education's management decisions and others relying on these reports. This is a fundamental duty of the Business Manager and should be prioritized by the Business Manager and Board of Education. Actions should be taken immediately to correct this material weakness.

In addition, one of the District's bank accounts is identified as the "Schoolhouse" account. References to "Schoolhouse" were eliminated as a result of the fiscal 1997 statutory conversion to reporting in accordance with generally accepted accounting principles (GAAP). The District should utilize current terminology consistent with GAAP and the Iowa Department of Education's chart of accounts.

Timeliness of Deposits

The District receives funds from the State of Iowa, Story County, parents and other sources. Some of these revenues are received via direct deposit. We identified the following:

- During fiscal year 2008, property tax receipts totaling \$299,267.30 were deposited to the District's bank account electronically by Story County. However, these receipts were not credited to the District's accounting records until the end of fiscal year 2008.
- The District collects certain lunch proceeds through Pay Schools, which is deposited to the Iowa Schools Joint Investment Trust (ISJIT). At June 30, 2008, the District recorded \$32,514.28 of receipts, the entire amount collected during the year, in the Enterprise, School Nutrition Fund rather than recording the collections as received.

- Deposits are not made timely for ala carte sales for the Enterprise, School Nutrition Fund.
- Ledger postings to the Enterprise, Child Care Fund were not timely from December 2006 through June 2007. One or two postings were made each month during that period of time. Since that time, ledger postings have been more frequent.

Recommendation – Failure to record transactions timely results in understating receipts. The District should implement procedures to ensure all receipts are recorded and deposited timely to provide accurate and meaningful financial reports for the Board’s management decisions and other users relying on these reports.

Enterprise, Child Care Fund

The Enterprise, Child Care Fund records activity related to the school run daycare program. The daycare program operates the pre-school as well as the before and after school programs. Different child care rates are established based on whether the child is an infant, toddler or preschool participant. Part-time rates are available for four hours or less each day. We noted the following:

- The daycare program does not maintain attendance sheets.
- Children of daycare staff attend for free.
- Families are not always billed for days when their children do not attend.
- Families are billed on Monday for the coming week with payment due by Friday. However, certain families do not pay weekly and have been allowed to accumulate a balance. We noted several delinquent accounts, including one account with a delinquent balance of over \$1,800.
- The Enterprise, Child Care Fund is operating at a deficit. As of June 30, 2008, the deficit balance totaled \$105,163, or approximately 52% of total fiscal year 2008 revenue.
- The Board does not have a written policy regarding the Child Care Fund and daycare operations.

Recommendation – The District should annually evaluate the financial status of the Enterprise, Child Care Fund and ensure rates at least cover operating expenses. Also, the District should implement written policies and establish procedures to address the daycare operations, including consistent charges for all children, including days in which parents choose to not have their child in attendance. Timely payment should be required and procedures should be implemented to monitor and control delinquent accounts.

If the District determines it is unable to realistically recover costs of the daycare program, the District should consider whether it should continue offering daycare services. The District should review and consider its options and take action to return this fund to a sound financial condition.

Enterprise, School Nutrition Fund

The District maintains appropriate federal nutrition reports identifying the number of free, reduced and full price meals and breakfasts. However, sufficient supporting documentation is not maintained to support the number of meals served each day and the corresponding revenue earned by the District. Also, there is not sufficient supporting documentation to identify the type of meal purchased, such as adult, student, ala carte, etc.

Additionally, beginning in fiscal year 2008, it appears certain amounts may have been recorded in the school lunch program for sales of school breakfast, special milk and ala carte. Without adequate supporting documentation, we were unable to definitively determine whether this was the case.

The Enterprise, School Nutrition Fund is operating at a deficit. As of June 30, 2008, the deficit balance totaled \$42,646, or approximately 20% of total fiscal year 2008 revenue.

Recommendation – The District should ensure adequate supporting documentation is maintained to support amounts earned by the District. Also, for financial control and to ensure accurate reporting, meals should be separately identified by type such as adult, student, ala carte, etc.

The District should annually evaluate the financial status of the Enterprise, School Nutrition Fund. At a minimum the District should ensure rates at least cover operating expenses. The District should review and consider its options and take action to return this fund to a sound financial condition.

Open Enrollment Fees

The District receives enrollment fees from other school districts for students open enrolled at the District. The District was unable to provide a listing or other documentation of the open enrolled students or a record of billings.

Additionally, the District posted an entry on June 30, 2008 for \$54,500.68, but the District's Business Manager was not able to identify the purpose of the entry or any supporting documentation for the entry except to indicate the District's predecessor auditor had instructed the District's Business Manager to record the entry.

Recommendation – The District should ensure adequate supporting documentation is maintained and retained to support amounts billed. Additionally, the District should ensure all adjusting journal entries posted to the system are adequately understood and supported. We were unable to determine the propriety of this entry.

Segregation of Duties

In the fiscal year 2008 audit, the District's predecessor auditor reported "segregation of duties" as a significant deficiency. Specifically, the fiscal year 2008 audit report stated, in part, "We noted that one individual has custody of receipts and performs all record-keeping and reconciliation functions for the office." There were no fiscal year 2008 audit report findings regarding the lack of reconciliations and/or the condition of the District's financial records due to lack of reconciliations. However, there appear to have been communications between the fiscal year 2008 auditor (predecessor auditor) and the District since the District subsequently engaged the predecessor auditor to assist the District with reconciling its records. The District has been unable to complete the fiscal year 2009 audit due to a lack of reconciled financial records.

One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. As a result of the limited tests and procedures performed, we determined one employee generally has control over each of the following areas with no compensating controls:

1. Accounting system – performing all general accounting functions and having custody of assets.
2. Receipts – collecting, depositing, journalizing, posting and reconciling.
3. Disbursements – check writing, signing, posting and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

As previously noted, reconciliation of the bank balances and District book balances is essential and this reconciliation function is necessary in maintaining accounting records which provide accurate and useful financial information and reports for the Board of Education's management decisions and other users relying on these reports.

The District should review its segregation of duties, including the reconciliation process, and implement procedures to ensure accurate and timely reconciliations are performed. The District should consider the need and options to provide assistance, training and oversight in the reconciliation process. Supervisory reviews should be performed and evidence of supervisory reviews should be indicated by initials of the independent reviewer, including the date of the review.

The procedures we performed were substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures, or had we performed an audit of the Colo-Nesco Community School District, additional matters might have come to our attention that would have been reported to you. A copy of this letter has been filed with the Iowa Department of Education. A copy of this letter has also been provided to the District's fiscal year 2009 independent auditor for appropriate review and follow-up in accordance with Government Auditing Standards.

We would like to acknowledge the assistance extended to us by personnel of the Colo-Nesco Community School District. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 9, 2010

Colo-Nesco Community School District Reaudit

Selected Fund Balances

	General	Special Revenue	Enterprise		Total
		Management	School Nutrition	Child Care	
Known adjustments to be made:					
2007 fund balance corrections:					
Unrecorded state revenues	\$ -	-	-	1,250	1,250
State revenues posted as credit to accounts receivable	-	-	-	836	836
Other unrecorded revenues	-	-	-	35	35
2008 fund balance corrections:					
Correct accounts receivable error	-	-	-	23,252	23,252
Unrecorded state revenues	-	-	-	4,730	4,730
State revenues posted as credit to accounts receivable	-	-	-	6,965	6,965
Other revenues posted as credit to accounts receivable	-	-	242	100	342
NSF check recorded as revenue	(206)	-	-	-	(206)
Other unrecorded revenues	33,929	-	9,085	4,669	47,683
Revenue overbooked	(1,592)	-	(443)	-	(2,035)
Revenue recorded twice	-	-	-	(6,901)	(6,901)
Recorded unknown entries	-	-	(1,273)	(2,735)	(4,008)
Net unknown deposit corrections	8	-	-	-	8
Unrecorded property tax	-	11,079	-	-	11,079
Recording errors	-	-	(5)	-	(5)
2009 fund balance corrections:					
Reallocate unrecorded state revenues	(923)	-	-	923	-
State revenues posted as a credit to accounts receivable	-	-	-	3,000	3,000
Known adjustments	31,216	11,079	7,606	36,124	86,025
Unknown adjustments to be made					
Adjusting entry required to balance	431,943	11,082	32,238	23,807	499,070
Net Adjustments	463,159	22,161	39,844	59,931	585,095
Balances as reported by the District as of June 30, 2009	745,021	197,676	(77,515)	(177,300)	687,882
Ending adjusted balances as of June 30, 2009	<u>\$ 1,208,180</u>	<u>219,837</u>	<u>(37,671)</u>	<u>(117,369)</u>	<u>1,272,977</u>
Bank transfers to be made:					
Transfer in from Schoolhouse	\$ 11,601	-	-	-	11,601
Transfer (out) to Student Activity	(2,535)	(840)	-	-	(3,375)
Total bank transfers to be made	<u>\$ 9,066</u>	<u>(840)</u>	<u>-</u>	<u>-</u>	<u>8,226</u>
Bank balance at June 30, 2009					\$ 1,417,371
Net transfers to be made					8,226
Adjusted bank balance at June 30, 2009					<u>1,425,597</u>
Reconciling items:					
06/30/09 Deposits in transit (per predecessor auditor)					9,007
06/30/09 Outstanding checks (per predecessor auditor)					(196,459)
Adjustment for outstanding check errors					35,091
Outstanding check not on predecessor auditor's listing					<u>(259)</u>
Ending adjusted balances as of June 30, 2009					<u><u>\$ 1,272,977</u></u>