

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Contact: Mary Mosiman
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE August 21, 2017

Auditor of State Mary Mosiman today released a reaudit report on the Mason City Community School District (District) for the period July 1, 2014 through June 30, 2015. The reaudit also covered items applicable to the years ended June 30, 2016 and June 30, 2017. The reaudit was performed at the request of a District official pursuant to Section 11.6(4)(a)(2) of the *Code of Iowa*.

Mosiman reported the reaudit for the period July 1, 2014 through June 30, 2015 identified \$109,073.24 of improper disbursements, including \$68,678.26 of improper vacation payout costs. The improper vacation payouts identified were issued to 5 former employees.

Mosiman also reported the improper disbursements identified include \$40,394.98 of improper salary costs for payments made to the District's former Business Manager and former Human Resources Director during the fiscal years ended June 30, 2016 and 2017. The improper payments were a result of unauthorized salary increases, improper salary amounts, and related benefits.

Mosiman also reported additional concerns were presented subsequent to completion of the reaudit, which related to prior fiscal years. Because the additional concerns were outside the scope of the reaudit, a separate special investigation report will be issued pending the outcome of additional procedures performed.

Mosiman recommended the District review various Board policies to ensure they are appropriate, complete, and properly followed and strengthen termination benefit policies by including specific terms of payouts. The District should also ensure any vacation payouts are approved by the Board, are mathematically accurate, and comply with the established Board policy. In addition, the Board, or a designated Board member, should perform an independent review of payroll to ensure approved salary increases are properly calculated. The District responded favorably to the recommendations included in the reaudit report.

Copies of the reaudit report have been filed with the Cerro Gordo County Attorney's Office and the Department of Education. Copies of the reaudit report are available for review in the District's Office, on the Auditor of State's website at <https://auditor.iowa.gov/reports/1530-4131-T00Z>, and in the Office of Auditor of State.

#

MASON CITY COMMUNITY SCHOOL DISTRICT
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Report on Reaudit	5-6
Detailed Findings:	<u>Finding</u>
Vacation Payouts	A 8-9
Superintendent Resignation Package	B 10
Approval of Service Contracts and Salary Increases	C 10-11
Electronic Signature	D 11-12
Staff	13

Mason City Community School District

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2015 Election)		
Robert Thoms	Board President	Resigned May, 2015
Timothy Becker	Board Vice-President	Resigned February, 2015
Mark Dodd	Board Member, Vice President as of February, 2015, President as of May, 2015	2015
Scott Warren	Board Member, Vice President As of May, 2015	2015
Jim Collins	Board Member	2015
Paul DeRoy	Board Member	2015
Darshini Jayawardena	Board Member	2015
Paula Recinos	Board Member	2015
Janna Arndt	Board Member	2017

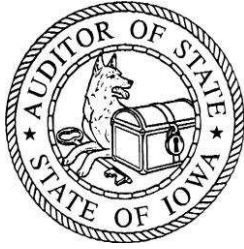
(After September 2015 Election)

Janna Arndt	Board President	2017
Lorrie Lala	Board Vice-President	2019
Paul DeRoy	Board Member	2017
Jodi Draper	Board Member	2017
Doug Campbell	Board Member	2019
Brent Seaton	Board Member	2019
Scott Warren	Board Member	2019

School Officials

Dr. Anita Micich	Superintendent	Resigned June 2016
Michael Penca	Interim Superintendent	July 2017
Ramona Jeffrey	Director of Finance/Board Secretary	Retired July 2015
John Berg	Business Manager/Board Secretary	June 2017
Cherie Yoder	Business Manager/Board Secretary	Indefinite

Mason City Community School District



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Auditor of State's Report on Reaudit

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

We received a request from a District official to perform a reaudit of the Mason City Community School District (District) in accordance with Section 11.6(4)(a)(2) of the *Code of Iowa*. As a result, we performed a review of the audit report for the year ended June 30, 2015 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, 2014 through June 30, 2017.

The procedures we performed are summarized as follows:

1. Obtained and reviewed various Board policies to determine whether they were sufficient and whether certain District transactions were in compliance with the established Board policies.
2. Reviewed vacation payouts issued to selected District employees to determine whether they complied with the provisions of the employees' service contracts and District policies, were initiated by payroll staff and reviewed/approved by the Business Manager, and were approved by the Board. Also, to determine whether the ending vacation balances agreed with District records and the pay rates used were reasonable.
3. Obtained a listing of purchase orders initiated and approved by the Superintendent's Office from the District's finance staff and examined the purchase orders listed to determine whether the purchases were properly supported, were for legitimate District purposes, were in accordance with the District policy for expenditures, and were approved by someone other than the requester or were approved by the Board.
4. Reviewed the resignation package agreement for the former Superintendent to determine if the amounts appeared reasonable, were supported, were in compliance with provisions in the service contract, and were approved by the Board.


In addition, during the course of our fieldwork, a District official brought to our attention certain discrepancies in administrative payroll. As a result, we also reviewed Board minutes and certain employee service contracts to determine if salaries were properly approved by the Board and if approved salary increases were applied appropriately for fiscal years 2016 and 2017.

Based on the performance of these procedures, we identified improper disbursements totaling \$109,073.24, as well as inadequate Board policies and instances of non-compliance and have developed various recommendations for the District. The inadequate Board policies and instances of non-compliance and our recommendations are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of non-compliance were not identified during the performance of the specific procedures listed above.

Additional concerns were brought to our attention subsequent to completion of the reaudit, which related to prior fiscal years. Because the additional concerns need to be addressed but were outside the scope of the reaudit, a separate special investigation report will be issued pending the outcome of additional procedures performed.

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 an audit of the District, additional matters might have come to our attention that would have been reported to you. A copy of this reaudit report has been filed with the Cerro Gordo County Attorney's Office and the Iowa Department of Education.

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


MARY MOSIMAN, CPA
Auditor of State

July 31, 2017

Detailed Findings

Mason City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

We received a written request from a District official to conduct a reaudit of the District for fiscal year 2015. The request detailed specific concerns, including:

- Propriety of purchase orders and payments processed through payroll, including vacation payouts, requested and approved by the former Superintendent.
- The Board was not informed there was an IPERS audit, who performed it, or the fiscal impact of the corrective action needed.
- Single source contracting and broker concerns for health insurance.
- The investment of District funds in CDs without full Board approval.
- Lack of corrective action taken by the District in response to prior audit report findings.

In addition, during our fieldwork, additional concerns were brought to our attention regarding the authorized salaries and salary increases for the Business Manager and the Human Resources (HR) Director.

As a result of the request, we performed a review of the District's audit report and workpapers prepared by the District's independent auditors to determine whether a complete or partial reaudit of the District should be performed. As a result of this review, we determined it was necessary to perform reaudit procedures for the first concern identified above, as well as the additional concerns presented during fieldwork. The remaining concerns were either outside the scope of the reaudit, were sufficiently reviewed by the District's independent auditors, or were not considered to be a concern.

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. However, additional concerns were brought to our attention subsequent to completion of the reaudit, which related to prior fiscal years. Because the additional concerns need to be addressed but were outside the scope of the reaudit, a separate special investigation report will be issued pending the outcome of additional procedures performed.

- (A) Vacation Payouts/Policy – The District provides annual vacation to administrative employees under terms defined in their service contracts. Certain employee service contracts included a provision for paying out vacation upon resignation, while most service contracts did not include such a provision. When an administrative employee resigned, the District routinely paid out the unused vacation balance without determining whether the employee's service contract included a vacation payout provision. The District paid the employee for his/her accrued vacation balance at the hourly rate. District payroll staff prepared an initial document showing the individual's ending vacation balance and hourly rate which was given to the Business Manager/Finance Officer for approval prior to payment. Because these payments were processed through payroll, they were not included with the listing of bills provided to the Board for review.

Prior to January 1, 2016, the District did not have an official policy covering vacation balance carryover limits. Effective January 1, 2016, a new policy was implemented to define the amount of vacation earned each year based on the employee's years of service. The policy also set a maximum vacation balance to be carried over to the next fiscal year. The new policy does not cover payout of an employee's vacation balance when he/she leaves employment with the District.

Mason City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

The District provided payroll records for all vacation payouts for the period reviewed as well as service contracts for the employees receiving a vacation payout. We identified 7 vacation payouts issued to 5 employees during the period reviewed totaling \$114,843.76. Of the 5 employees, 2 each received 2 payouts.

None of the 7 vacation payouts were approved by the Board. Based on our review of the 7 vacation payouts, we identified 6 improper vacation payouts which totaled \$68,678.26. Specifically, we identified the following:

- 4 of the 7 vacation payouts identified did not have specific terms for a payout of accrued vacation in their employee service contracts. The payouts for these employees totaled \$49,761.01, including the District's share of FICA.
- A vacation payout totaling \$16,739.25, including the District's share of FICA, was for an additional 30 vacation days beyond the prior year ending vacation balance of 60 days, which was also paid to the employee. The additional 30 vacation days represented the vacation accrual earned by the employee for working part of fiscal year 2016. However, there was no policy in place requiring the 30 days of vacation earned each year to be prorated for the portion of the fiscal year the employee worked and the employee service contract did not have specific terms for a payout of accrued vacation.
- A vacation payout used an incorrect hourly rate. Additional amounts were included in the base salary to determine the rate, resulting in an overpayment of \$2,178.00.

We also determined 4 of the 7 vacation payouts issued to 2 employees were initiated and approved by the former Superintendent and were not reviewed or approved by payroll staff or the Business Manager's Office prior to payment.

Recommendation – The District should review its policies regarding accrued vacation and include specific terms relating to payout of vacation balances upon termination. In addition, the Board should review and approve any payouts of accrued vacation to determine they are in compliance with District policy. Rates used to calculate vacation payouts should be reviewed by the Business Manager to ensure they are proper, and vacation payouts should not be processed unless they are allowed under the terms of the employee's service contract or are required per a District policy.

Response –

- The District will review its policies regarding accrued vacation and include specific terms relating to payout of vacation balances upon termination in the service contract of applicable employees.
- At this time, the superintendent contract is the only contract that states there will be accrued and earned vacation payout. No other administrator has this option.
- All vacation payouts will be reviewed for accuracy by the district's Director of Finance and processed as payroll upon board approval.
- All vacation payouts will be listed on a board agenda prior to processing and require board approval.

Conclusion – Response accepted.

Mason City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

- (B) Superintendent Resignation Package – On May 11, 2016, the Board approved a resignation agreement with former Superintendent, Dr. Anita Micich which was effective June 29, 2016. However, she was placed on administrative leave effective June 6, 2016 and the District chose to terminate her service contract effective June 29, 2016.

Dr. Micich's service contract did not include provisions regarding any financial issues related to early termination of the contract. However, the resignation agreement included provisions for salary payouts, vacation payouts, early retirement incentives, health and dental insurance payments, and life insurance payments totaling \$292,955.86.

The District drafted a resignation package agreement in consultation with its legal counsel, which was approved by the Board and the former Superintendent on May 11, 2016. The agreement included provisions for:

- the payment of a portion of Dr. Micich's fiscal year 2017 salary,
- payout of vacation earned for fiscal year 2017, and
- payments for other benefits related to fiscal year 2017 based on provisions in the original contract although Dr. Micich did not work during fiscal year 2017.

The public purpose of paying out the fiscal year 2017 amounts was not documented by the Board when approving the agreement.

Recommendation – The District should ensure the public purpose of any future resignation agreements is clearly documented. Service contracts should include provisions which cover any financial issues related to early termination of a contract.

Response – The district will include provisions for financial issues as related to early termination of a service contract in the superintendent's service contract to ensure the public purpose of any future resignation agreements is clearly documented.

Conclusion – Response accepted.

- (C) Approval of Service Contracts and Salary Increases – The Board approves all service contracts and salary increases for the District. On June 15, 2015, the Board approved a service contract for John Berg, the former Business Manager/Board Secretary, with an annual salary of \$65,000.00. However, on January 7, 2016, the former Superintendent made a retroactive contract adjustment without Board approval to increase Mr. Berg's salary to \$75,000.00 annually, a 15.38% increase. The District provided a copy of an updated service contract signed by the Board President on January 8, 2017; however, according to our discussion with the Board President, she was not aware of the contract adjustment and did not physically sign the amended contract. We determined the Business Office had an electronic signature for the Board President on file. Use of an electronic signature is discussed further in "Finding (D)" of this report.

On June 20, 2016, the Board approved a 3% raise for non-bargaining staff, including administrative personnel, for the 2016-2017 school year. Based on review of the 2016-2017 service contract for Mr. Berg, his annual salary was \$82,250.00. As a result, he received a 26.54% increase from his previously approved salary of \$65,000.00 which is well above the approved 3% increase. This contract was not presented to the Board for approval; and, although it contained the Board President's signature, she was not aware of it and did not physically sign this contract.

Mason City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

In addition, Jodie Anderson, the HR Director, was hired at a starting annual salary of \$80,000.00 for the 2015-2016 school year, which was to be prorated to \$76,000.00 because she started on July 20, 2015. This contract was not presented to the Board for approval and the electronic signature for the Board President was used to sign this contract. Ms. Anderson was subsequently paid \$80,000.00 for the 2015-2016 school year. For the 2016-2017 school year, Ms. Anderson's service contract was increased to \$87,750.00 annually, a 9.69% increase from the previous year. This contract was also not presented to the Board for approval, and the electronic signature for the Board President was used to sign this contract, as well.

We are unable to determine who applied the electronic signature to the contracts.

Table 1 summarizes the approved and actual salaries for Mr. Berg and Ms. Anderson, as well as the improper salary identified and the related District share of FICA and IPERS.

Table 1

Employee	Actual Salary per Payroll Register	Approved Salary per Contract	Improper Salary	District's Share of:		Total Improper
				Improper FICA	Improper IPERS	
John Berg (FY16)	\$75,000.00	65,000.00	10,000.00	765.00	893.00	11,658.00
John Berg (FY17)	82,250.00	66,950.00	15,300.00	1,170.45	1,366.29	17,836.74
Jodie Anderson (FY16)	80,000.00	76,000.00	4,000.00	306.00	357.20	4,663.20
Jodie Anderson (FY17)	87,750.00	82,400.00	5,350.00	409.28	477.76	6,237.04
Total			\$34,650.00	2,650.73	3,094.25	40,394.98

Recommendation – The District should ensure all service contracts are presented to the Board for approval and are physically signed by the Board President, not an electronic signature. The District should also ensure salary increases are applied consistently across all service contracts.

Response –

- The district will develop policy and/or regulation to ensure all service contracts are presented to the Board for approval and are physically signed by the Board President or the Board President authorizes the use of a facsimile signature.
- The District will develop specific guidelines for salary increases for administrative staff so salary increases are applied consistently across all service contracts.

Conclusion – Response accepted.

- (D) Electronic Signature – Section 291.1 of the *Code of Iowa* requires the Board President to sign all contracts. For District warrants, section 291.1 of the *Code of Iowa* provides, "The president or the president's designee shall sign, using an original or facsimile signature, all school district payments drawn and authorize electronic funds transfers as provided by law. The board of directors, by resolution, may designate an individual, who shall not be the secretary, to sign payments or authorize electronic funds transfers on behalf of the president."

In addition, section 291.8 of the *Code of Iowa* requires the District Secretary to "countersign [warrants] using an original or facsimile signature." Section 279.20 allows the Board to delegate the authority to hire and sign personnel employment contracts for support personnel only, including, but not limited to, bus drivers, custodians, and food service personnel.

Mason City Community School District

Detailed Findings

July 1, 2014 through June 30, 2015

The District does not have a policy addressing or permitting the use of electronic or facsimile signature stamps. As previously stated, the employment contracts for Mr. Berg and Ms. Anderson were signed using the Board President's electronic signature. According to the Board President, she was only aware of the electronic signature used for payroll and other checks (warrants). The electronic signature is in the possession of the business administrative office and the Board Secretary.

Recommendation – Pursuant to section 291.1 of the *Code of Iowa*, the Board President shall sign all contracts approved by the Board. The District should ensure its use of facsimile signature stamps and electronic signatures complies with section 291.1 of the *Code of Iowa*. In addition, the District should implement a policy regarding the use of electronic signatures and facsimile signature stamps, including the custody and use of the facsimile signature stamp(s) and electronic signatures and, to ensure compliance with the policy, periodic monitoring to ensure the policy and established procedures are being followed as prescribed.

Response –

- The District will ensure its use of facsimile signature stamps and electronic signatures complies with section 291.1 and section 4.1(39) of the *Code of Iowa*.
- The Board President will be made aware of all new hires in the District and authorize the use of the facsimile signature in the issuance of the service agreement for all contracts except cabinet level administrators and the superintendent.
- The Board President will originally sign all cabinet level administrator and superintendent service contracts.

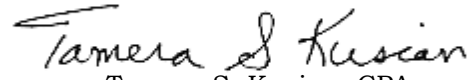
Conclusion – Response accepted.

Mason City Community School District

Staff

This reaudit was performed by:

Brian R. Brustkern, CPA, Manager
Emma L. McGrane, Staff Auditor
Mark D. Newhall, Assistant Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State