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NEWS RELEASE

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FOR RELEASE _____ February 8, 2005 _____

Auditor of State David A. Vaudt today released a report on the Baxter Community School District. The report covers the period July 1, 2003 through November 17, 2004. The procedures were performed as a result of citizen concerns with an alleged practice of the Business Manager paying District vendors with a personal credit card then receiving reimbursement from the District, a practice alleged to allow the Business Manager to earn personal credit card redeemable points from District purchases.

The report includes recommendations to strengthen the District's controls and procedures over purchases and travel reimbursements. Specifically, Vaudt recommended payments for District supplies and travel costs should be made by the District directly to the vendor or employee incurring the expense.

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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Baxter Community School District
202 E State St
Baxter, IA 50028

To the Board of Education:

We were recently contacted by a group of citizens concerned with an alleged practice of the Business Manager paying District vendors with a personal credit card then receiving reimbursement from the District, a practice alleged to allow the Business Manager to earn personal credit card redeemable points from District purchases. As a result of concerns brought to our attention, we conducted certain tests and procedures to selected financial transactions of the District for the period July 1, 2003 through November 17, 2004. Based on discussions with the Superintendent and the Business Manager and a review of relevant information, we performed the following procedures:

- (1) Reviewed policies and procedures to determine whether the District used credit cards issued to the District as authorized by Chapter 279.8 of the Code of Iowa.
- (2) Reviewed policies and procedures to determine whether the District had a resolution pursuant to Chapter 279.30 of the Code of Iowa to permit vendor payment prior to Board approval.
- (3) Reviewed internal controls to determine whether adequate internal controls, including use of purchase orders, were in place over disbursements.
- (4) Reviewed Board minutes to determine whether disbursements were presented to the Board for approval.
- (5) Reviewed documentation supporting reimbursements to the Business Manager to determine whether the reimbursements were appropriate and whether supporting documentation was proper.

As a result of these procedures, we obtained an understanding of the District's disbursement process, determined disbursements have been properly presented to the Board for approval and determined the District does not have a credit card established in the District's name. In addition, we did not identify any personal or inappropriate expenses that should not have been reimbursed to the Business Manager or any District payments to personal credit card accounts of employees.

We identified 15 reimbursements totaling \$4,364.92 made to the Business Manager during the period of our review. Of the 15 reimbursements, 12 included supplies purchased for the District and 11 included travel expenses for the Business Manager. Some of the purchases for supplies reimbursed to the Business Manager were made on the Business Manager's personal credit card. Based on our review of the related personal credit card statements, the Business Manager did receive redeemable points for making District purchases with her personal credit card. However, the District purchases made with the Business Manager's personal credit card were not significant in relation to the total activity on the personal credit card. Any redeemable points received by the Business Manager as a result of purchases made on behalf of the District were nominal.

As a result of our review, we identified the following findings and recommendations that should be considered by the District:

- (A) Reimbursement for Supplies Purchased – The District currently allows employees to purchase supplies and later receive reimbursement for the purchases. For example, we identified two purchases of envelopes for District use, made by the Business Manager, each exceeding \$1,200.

The District does not have a formal, written policy governing this practice. Currently, employees must receive verbal approval from the Superintendent prior to the actual purchase. However, at times, a purchase order is also submitted for the request but purchase orders are not consistently required.

Recommendation – Chapter 279.30 of the Code of Iowa states in part “Each warrant must be made payable only to the person performing the service or presenting the verified bill, and must state the purpose for which the warrant is issued.” To improve controls over supplies purchased on behalf of the District, all payments should be made directly to the vendor by the District.

Chapter 279.8 of the Code of Iowa authorizes the Board to establish policy to allow employees to use credit cards issued to the District to pay the actual and necessary expenses incurred in the performance of work-related duties. Accordingly, the District may establish alternative payment methods such as charge accounts established with specific vendors or the use of a credit card established in the District’s name with the Board’s approval. If a credit card is established in the District’s name, the District should establish policy and procedures associated with physical custody of the card, appropriate use of the card, payments for purchases and independent reviews and approvals to ensure appropriate segregation of duties and internal control. Board policy should also include a requirement for adequate supporting documentation of the credit card charges rather than payment solely based upon the credit card statement.

There are instances when a teacher may have a specific need for his/her classroom. If the District continues to allow teachers to purchase supplies and receive reimbursement, a formal, written policy related to supplies reimbursement should be developed and approved by the Board. The District’s purchase order system and use of purchase orders should be reviewed and revised, as necessary for consistency and to ensure adequate internal control over the District’s budget and related expenditures.

- (B) Reimbursement for Travel Costs – Per discussion with the Superintendent, it is our understanding that on occasion an employee/teacher has paid travel expenses for several employees/teachers rather than requiring each individual to pay and be reimbursed by the District for his/her own actual expenses.

Recommendation – As previously noted, consistent with Chapter 279.30 of the Code of Iowa, payment for actual and necessary travel costs and/or other employee expenses should be reimbursed directly to the employee incurring the expense on behalf of the District. In addition to compliance with Chapter 279.30, this enables the District to better ensure the propriety and allowability of costs submitted for reimbursement.

- (C) Questionable Disbursements – Three reimbursements to the Business Manager were for food purchased for various meetings. These disbursements may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

Recommendation – According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The Board should determine and document the public purpose served by these expenditures. If the District continues to purchase food for meetings, the Board should establish written policies and procedures, including the requirement for documentation of the public purpose served.

The procedures we performed 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 Baxter 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 and many courtesies extended to us by officials and staff of the District during the course of our review.


DAVID A. VAUDT, CPA
Auditor of State

November 17, 2004

Cc: Neil Seales, Superintendent
Iowa Department of Education