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News Release

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For Release July 13, 2006

Nolte, Cornman & Johnson, PC today released a report on the special investigation requested by the Council Bluffs Community School District. District officials called for the audit after the District's internal review of band-related funds found an untimely deposit and irregularities associated with the collection and handling of receipts by the Thomas Jefferson High School music department. The report covers the period of March 1, 2005 through March 31, 2006.

The auditor's special investigation identified that, although the District has prescribed procedures for collecting money for gate admissions, the District's control procedures specifically related to the cash box and the safeguarding of gate receipts were not followed when Thomas Jefferson High School hosted the State Marching Band Festival in October of 2005. The lack of controls included no pre-numbered tickets, no reconciliation of tickets to gate revenue, as well as an undeterminable number of people who had access to the cash box the day of the event, and for a total of 59 days, first at the event, then in the music department office for a period of six days and then in the home of the band director for 53 days, until it was turned in to the school activities accountant. With the lack of controls, there is no way to determine how much was collected and if the District has accounted for the total gate receipts from the marching band festival.

The audit also reported findings with regard to the Thomas Jefferson High School Band participation in a London Parade Festival, January 1, 2006.

The report also includes recommendations to the District to strengthen the District's internal controls.

Copies of this report have been filed with the Pottawattamie County Attorney's Office and the Auditor of State. A copy of the report is available for review at the Council Bluffs Community School District, and in the Office of Auditor of State.

REPORT ON SPECIAL INVESTIGATION
OF
COUNCIL BLUFFS COMMUNITY SCHOOL DISTRICT

FOR THE PERIOD MARCH 1, 2005
THROUGH MARCH 31, 2006

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Independent Accountant's Report On Applying Agreed-Upon Procedures

To the Board of Education
Council Bluffs Community School District
Council Bluffs, Iowa

As a result of irregularities discovered in the procedures when hosting the State Marching Band competition and at your request, we conducted a special investigation of the Council Bluffs Community School District processes and procedures in the band department for the period of March 1, 2005 through March 31, 2006. Based on information obtained from interviews with personnel of the Council Bluffs Community School District, we performed the following procedures.

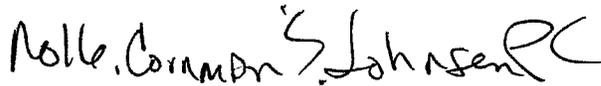
- (1) We reviewed the official and unofficial interview summaries from the individuals involved with the State Marching Band Festival and London trip, which were conducted by the Human Resources, Executive Director.
- (2) We conducted interviews of employees and volunteers involved with the State Marching Band Festival and London trip.
- (3) We reviewed bank statements of the Thomas Jefferson student activity accounts and examined deposits and checks on the account.
- (4) We reviewed the bank statements of the Thomas Jefferson Band and Orchestra Parents (TJ BOP), which is a not-for-profit entity organized for support of the Thomas Jefferson Band and Orchestra Programs. The bank statements as well as deposit slips and checks related to the London trip, and the Marching Band Festival were used in comparison to District records.
- (5) We compared the Band director spreadsheet of collections for the London trip to the bank deposits.
- (6) We sent confirmations to each of the adults who went on the London trip.
- (7) We toured the band room and offices as identified in the interviews related to the Marching Band Festival cash box.

- (8) We corresponded with the Iowa High School Band Association for requirements in hosting an event and the timeline involved with the Council Bluffs School District related to the October 15, 2005 State Marching Band Festival.

Because the procedures noted above do not constitute an audit made in accordance with U.S. generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with U.S. generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above, and does not extend to any financial statements of Council Bluffs Community School District taken as a whole.

Copies of this report have been filed with the Pottawattamie County Attorney's Office and the Auditor of State.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Council Bluffs Community School District during the course of our investigation.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson, P.C." with a stylized flourish at the end.

Nolte, Cornman, & Johnson, P.C.

June 21, 2006

Council Bluffs Community School District
Investigative Summary
Background Information

State Marching Band Competition

In October 2004 and October 2005 the District hosted the State Marching Band competition. The entry fees collected at the gates for the October 2005 competition were not timely deposited, resulting in a review of the processes and procedures involved in the event. The gates and concession stands were manned by volunteers of the Thomas Jefferson Band and Orchestra Parents (TJ BOP). The TJ BOP is a volunteer parent organization that supports the Thomas Jefferson High School music programs. The organization is a separate not-for-profit entity with its own officers. The proceeds from the event are the Iowa High School Band Association's, however, the hosting district does receive reimbursement for actual expenses and 25% for the use of the facilities.

The Iowa High School Band Association does not appear to have formal prescribed procedures monitoring the collection of entry fees for the spectators at the event. However, the district has prescribed procedures when collecting money through gate admissions. The district procedures include prenumbered tickets issued to spectators and reconciliation forms from tickets sold to cash collected. The cash boxes are turned over to an administrator who locks it in the administrative office for subsequent deposit. The cash box is counted by the accountant and administrator and then deposited. On October 15, 2005 the District hosted the State Marching Band competition. The prescribed procedures and processes were not followed for this event. The band director, Mr. David Clark, requested the cash box; however, the cash box did not include prenumbered tickets. The cash box at the end of the event was not picked up by an administrator, but was actually turned into the concession stand, where it sat under the counter until it was given to the band director. The band director did not lock it in the administrative office since he did not have access to the office. The band director did not turn the cash box in to the accountant, until December 13, 2005. The cash box, when turned in, was counted only by the accountant and deposited.

Cindy Tholen, TJ BOP Treasurer, picked up the cash boxes with the start up change for the gates and the concession area. Ms. Tholen worked the concession stand with several other volunteers. The volunteers were identified as Kathy Mann, Jerry Arrick, Kathy Wright, Barb Brown, Cindy Hewitt, Mary and Paul Shomers, Sandy Valeeka and Bev Androczek. Ms. Tholen indicated that she was aware of the cash box from the gates being brought to the concession area and she put it under the counter. She later gave it to Mr. Clark. She indicated she did not count the cash box for the gates, at any time.

Julie Thayer, a parent volunteer, got the cash box from Cindy Tholen. Ms. Thayer was positioned at the South (Main) gate and worked the gate the entire day with Vicky Davids, a parent volunteer. Ms. Thayer indicated that no one else worked admission gates, and that she turned the cash box over to the concession stand. Ms. Thayer indicated that she did not count the cash box. Ms. Davids indicated that she had, through the course of the day asked twice, what the start up cash was, but did not receive an answer. Ms. Davids indicated that she had counted the box and it contained at least \$5,000. There was no reconciliation form and no documentation of this count. Ms. Davids indicated that 'we' turned the cash box into the concession stand. Ms. Thayer and Ms. Davids indicated that no one else worked the gates.

However, the North gate appeared to be open for a few hours. Linda Van Orsdol, parent volunteer worked that gate. Ms. Van Orsdol indicated that she turned her collections over to the Main gate. Ms. Van Orsdol indicated she did not count the money.

Mr. David Clark, band director picked up the gate cash box from the concession area and indicated he placed the cash box in his office for safekeeping, intending to turn it into the office on Monday. Mr. Clark, however, did not turn the cash box in on Monday, as he was not in school, due to family medical reasons. Mr. Clark also indicated he was absent all week from school caring for his wife. He returned on Friday evening, October 21, 2005 to help set up for a craft fair. Mr. Clark indicated 'I remember seeing the money box there and so at the time because I knew there would be lots of people around Saturday at the craft fair in and out of the office I took them home.' Mr. Clark shared an office with Brenda Copeland, orchestra teacher and Jerry Gray, vocal music teacher. In addition, the office is accessible to students.

Mr. Alan Greiner, Executive Director of Iowa High School Music Association had requested several times that the money collected from the Festival be remitted. Missy Rowe, Thomas Jefferson activity accountant, had requested that Mr. Clark turn in the cash box on October 27, November 14, and December 9, 2005. On December 9, Mr. Greiner was referred to Mr. Cyle Forney, activities director and acting principal. Mr. Forney requested that Mr. Clark turn in the gate revenues immediately. On December 12, Mr. Forney emailed Mr. Clark and advised that the gate revenues must be turned in immediately. On December 13, 2005, Mr. Clark was directed by Dr. Steve Hardiman, High School Principal to go home and bring the cash box back. Mr. Clark left and brought the cash box back to the office, giving it to Ms. Rowe. Ms. Rowe counted the money by herself. Ms. Rowe indicated that the amount, \$1,340 less the start up cash of \$300, was a large discrepancy from the previous year and disclosed that information to Dr. Hardiman and Mr. Forney.

London England Marching Band Trip

The Thomas Jefferson Marching Band participated in a parade in London, England on January 1, 2006. Mr. Clark entered into the contract on behalf of the district. The TJ BOP organization was instrumental in fundraising to cover the cost of the trip. The timeline of the actual event began January 25, 2005 when the district was contacted by Youth Music of the World (International) Limited to participate in the 2006 London Parade Festival. There appears to be communication between the two groups with the actual contract signed and dated June 10, 2005. The participants were asked to make a deposit and payments, as well as the fundraisers to keep them on track beginning March 1, 2005. Mr. Clark and Ms. Tholen worked together on the deposits and spreadsheets accounting for the collections of deposits for the individual participants, as well as documenting the funds raised. The records from the spreadsheets obtained from Mr. Clark indicated more collections turned over to Ms. Tholen than were deposited.

The TJ BOP performed fundraising events such as: chili feed, car wash, craft fairs, raffle tickets for hot tub, and candy sales. Fundraising events were deposited directly by Ms. Tholen. The students provided other continuing fundraisers as well as deposits, to Mr. Clark as collected, who subsequently turned the cash and checks over to Ms. Tholen for deposit. There did not appear to be receipts issued to students turning in money.

The actual number of individuals on the trip included 63 students and 18 adults for a total of 81. The contract actually provided for a pre-site visit to London for two people who were able to make decisions for the district. The pre-site visit for two was free of charge. The pre-site trip was to be completed in the summer 2005. The performance travel package included two free of charge trips in conjunction with the official performance trip. Mr. Clark and his wife, Rhonda Clark, made the pre-site trip. The two free trips for the event were identified as Mr. Clark and Ms. Tholen. The trip costs per individual were identified as \$2,085. The actual price paid for the performance travel package was \$168,885. The billing was for 81 participants with two free of charge. The payment made, included two students who did not go on the trip, one was a medical reason, and the other a family reason. Records indicate that these two students notified the District, November 15, 2005. These two trips were paid for, but may qualify for the trip insurance refund as noted in the spreadsheet.

There did not appear to be any formal minutes from the TJ BOP organization indicating the expected costs for the band parents and chaperones. The estimated costs of the trip were \$2,210 each. The individual students, with the exception of two who paid \$2,000/each, each paid \$900. The additional costs were offset by the fundraising and donations received. The parents and chaperones going to London were identified as paying \$0 to \$2,210 on Mr. Clark's spreadsheet. However, Ms. Tholen's records of deposit did not support those payments. The adult participation was in question with regard to the amount of payment made.

Because of the question of the differences identified on the London trip as well as the significant trip costs and the State Marching Band competition, the District requested that our office conduct an investigation of the financial transactions. As a result of that request we performed the procedures detailed in the Independent Audit report for the period of March 1, 2005 to March 31, 2006.

Detailed Findings

Admission to State Marching Band Competition – The District currently has procedures that are to be used when collecting money through gate admission events. The district procedures include prenumbered tickets issued to spectators and reconciliation forms from tickets sold to cash collected. The cash boxes are turned over to an administrator who locks it in the office for subsequent deposit. The cash box is counted by the accountant and administrator and then deposited. The individuals involved with the Band competition did not appear to follow procedures. There was no evidence of prenumbered tickets issued. As a result, there is no count of the spectators paying. The amount collected cannot be reconciled to the spectators paying. There is no way to determine if the District has accounted for everything if they don't know how much should have been collected. Fourteen individuals had access to the cash box the day of the event. Additionally, an undeterminable amount of people had access to the cash box as it sat in an office shared by two additional individuals, as well accessible to many students.

Although the District has internal controls procedures, they were not followed on October 15, 2005. The breakdown of the controls began with the cash box not containing prenumbered tickets. It continued, as the individuals at the gate responsible for the cash

box were not aware of the start up cash, and then turned the unlocked box over to concession stand workers. The District requires an administrator to pick up the cash box, but that day no administrator picked up the cash box. The cash box was turned over to the Band director, who had no place to secure the cash box. Since there were no prenumbered tickets, there was not a reconciliation form completed, making it difficult to determine what the amount of the day collection was. Subsequently, when the Band director turned the cash box into the office, the accountant, who would procedurally count with an administrator, counted the money by herself.

Recommendation - The objectives of internal control are to provide reasonable assurance that: assets are safeguarded and used for business purposes, business information is accurate, and employees comply with laws and regulation. Internal control procedures implemented, may also protect your employees or volunteers from wrongful accusations. Although the district has procedures they do not appear to be in place. The District should have internal control procedures communicated and established. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Hosting State Competitions – We noted that the district when hosting the State Marching Band competition in 2004, deposited the amount received from the Iowa High School Band Association into the TJ BOP organization. Although the organization TJ BOP may have volunteered to work the event, the payment made by the Iowa High School Band Association was for the use of facilities. The hosting fee, for use of the facility, is calculated by 25% of the gate admissions collected. Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General fund.

Recommendation - The District should request \$1,077.50 from the TJ BOP organization and deposit it in the General fund. The use of facility or rent collected for the 2005 State Marching Band competition use, as well as any future revenue from rent should be recorded in the General fund.

London, England Band Trip –

Unauthorized contract - Mr. Clark, band director, entered into a contract dated June 10, 2005 on behalf of the District with Youth Music of the World (International) Limited, for the Thomas Jefferson High School Monticello's Regiment to perform as part of the 2006 London Parade Festival on January 1, 2006. Although there is an approval form, signed by the principal, Dr. Steve Hardiman, and Mr. Clark dated April 22, 2005, the form is blank for the superintendent and school board.

Recommendation - The District should establish prescribed procedures and designate individuals who may act as an agent for the school to enter them into contracts. The school should document and distribute the procedures to sponsors and employees to avoid future obligation of unauthorized contractual agreements.

Gift law – The London trip package had a pre-site visit package for two, the summer of 2005. The pre-site trip was to be for those who could make decisions regarding the group while they were there. Mr. Clark, band instructor and his spouse used the pre-site package personally. Although Mr. Clark signed the contract for the Festival participation

and his spouse witnessed the signature, he did not appear to have official capacity to enter into the agreement.

Iowa Code chapter 68B gives guidance for public officials and employees on prohibited acceptance of gifts. The Youth Music of the World (International) Limited is actually selling travel packages and would appear to be a 'restricted donor' per Code of Iowa Chapter 68B(24)(a). Iowa Code chapter 68B.22 states that a public official or public employee or that person's immediate family member shall not, directly or indirectly accept or receive any gift from a restricted donor.

Recommendation - The District should consult legal counsel with regard to this matter.

Administrator required on a trip - During our investigation, we noted no policy with regard to requirement of an administrator participating on a trip. Several individuals interviewed indicated that the expectation of the District was that an administrator would be expected to go on any school-sponsored trip. Mr. Mike Johnson and his spouse went on the London trip identified as a school administrator. Mr. Johnson and his spouse did not pay for the cost of the trip. The cost of their trip was paid by the TJ BOP organization that fundraised for the entire group.

Recommendation - The District should document the expectation of a school administrator on trips and determine who pays the cost of that administrator. The District should not pay travel expenses of spouses of District officials and employees. If the organizations are expected to pay for the cost of the administrators, that should be documented in writing and communicated to sponsors and organizations who are planning trips.

Students, Parents and chaperones – The TJ BOP organization did not have documentation as to the calculation for the payment for the parents and chaperones. Interview documentation indicated that in an effort to reduce the cost for the student, the parent members going on the trip expected to pay the entire cost of the trip. The fundraising and donations would be used for the student participation. An initial estimate of the cost, \$2,000 was paid by two of the students. The remaining students who went on the trip appeared to pay \$900. There were two students who did not go, who had each paid deposits of \$400. The parents attending appeared to pay between \$2,200 and \$2,210. The chaperones, who went on the trip, varied in the payments from free to one half of the actual cost of the trip. There did not appear to be any documentation to indicate that the chaperones were to have free trips or pay a portion of the cost. The inconsistency in the amounts paid from that group indicates that no formal decision was made for the cost. The lack of decision by the group, however, would not give the authority to barter and negotiate individual rates to an individual. Furthermore, the chaperones who went on the London trip all appeared to have connections to the District. As previously noted, Mr. Johnson, assistant principal and his spouse, as well as Mr. Clark, band director and his spouse, Mr. Gray, vocal music teacher and his spouse, and Mr. Robert Putnam, retired music teacher and his spouse. Although TJ BOP organization raised the money and paid for the cost of the trip, the District should be aware that the appearance of impropriety is evident since Mr. Clark an employee of the District, negotiated the prices to current and former employees of the District.

The relationship between the chaperones and the District appears to benefit the chaperones in a significantly discounted trip to London, England. The costs of which were born by the students, whom paid cost higher than they may have had to if the chaperones had covered the costs of the trip.

Recommendation - The District should adopt guidelines concerning necessity of chaperones, the number of chaperones per students attending and the expectation of the costs to be paid by chaperones.

Prenumbered Receipts - The band students involved in the fundraising and payments turned over to Mr. Clark, band director, were not issued receipts. The recording of the collections were done on a spreadsheet and then turned over to the Ms. Tholen, Treasurer of TJ BOP to be deposited in the bank. The spreadsheet noting the collections was not ever reconciled to the monthly deposits as part of the bank reconciliation. The spreadsheet identified individuals as paying the scheduled payments, when actually no money was deposited into the bank. Reconciling the cash deposits to the spreadsheet identified differences. These differences appeared to be the amounts identified as full payment by the chaperones, when actually the chaperones payments were substantially lower. The chaperone payments on the spreadsheet were reconciled to individual collections deposited in the bank, as well as interview information and confirmations obtained. The amounts deposited in the bank appeared to be the amount collected for payment.

Recommendation - The District does not currently require prenumbered receipts to be issued when sponsors are collecting receipts from students. The District should consider requiring receipts be issued for all collections, including when sponsors are collecting money. Individual receipt books should be made available to sponsors, if they are responsible for collecting funds from individuals. When sponsors turn the cash and checks into the office for deposit, a copy of the receipts issued should accompany the cash and checks. The accountant should provide a receipt to the sponsor for the amount turned in. The sponsor should count the cash with the accountant. An independent individual should reconcile the bank statement and the numerical sequence of receipts should be accounted for comparing the original receipts to the deposit.

Travel insurance claim – The district had two students who did not go on the London trip, which were identified in the spreadsheet. At least one of those students would appear to qualify for the travel insurance clause in Appendix 1 of the contract. The student was not able to go for medical reasons. Per the contract, the illness certified by a competent authority would qualify for the ability to get reimbursed for unused travel and accommodations expenses paid, up to \$2,500. The travel cancellation insurance is included in the cost of the travel program as noted on page 6 of the contract.

Recommendation - The District should seek reimbursement for the travel costs for this individual student, if they have not already done so.