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STATE OF IOWA

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In accordance with Chapter 11 of the Code of Iowa, you contacted the Office of Auditor of State regarding concerns related to the Northwest Early Childhood Iowa (NECI) Area Board. Specifically, the NECI Area Board and its Director identified concerns about the amount being held by its fiscal agent, Sioux County, Iowa, for NECI as of June 30, 2014. The amount held in the Area Board's Iowa Public Agency Investment Trust (IPAIT) account was allegedly reported by a representative of the Sioux County Treasurer's Office to be \$561,328 at June 30, 2014. A subsequent communication with Sioux County officials stated the amount provided was in error. Based on the audited financial statements of Sioux County, Iowa as of and for the year ended June 30, 2014, the fund balance for the NECI Area Board was only \$57,931. As a result of this discrepancy, NECI staff members were concerned about the accuracy of the balance of NECI funds held by the fiscal agent, Sioux County.

The NECI Area Board also conveyed concerns to you related to the personal use of NECI Area Board credit cards by NECI officials which resulted in significant account balances.

As a result of the concerns identified, we applied certain tests and procedures to selected financial transactions of the NECI Area Board for the period July 1, 1999 through June 30, 2014. Based on a review of relevant information and discussions with County and NECI officials and personnel, we performed the following procedures:

- 1) Attempted to prepare a schedule of funds received and disbursed by the NECI Area Board for fiscal year 2000 through fiscal year 2014 using County provided financial reports and computerized records to assist with the determination of NECI account balances through June 30, 2014. These procedures included:
 - a) Determination of whether collections received from the Iowa Department of Education and the Iowa Department of Human Services were properly deposited with the Sioux County Treasurer's Office and recorded in the County's accounting system.
 - b) Determination of whether disbursements made from the NECI Area Board's account maintained by the County were for Board activities and were properly reported in NECI's annual report.
- 2) Reviewed the method used by Sioux County to calculate interest on NECI Area Board funds to provide assurance interest was accurately reported.
- 3) Reviewed certain credit card bills and reimbursements to ensure:
 - a) NECI credit card charges were properly supported and meet the objectives of NECI operations.
 - b) NECI Area Board funds were not used for personal expenses.

Detailed descriptions of our findings are included in the following paragraphs.

Schedule of Funds Received and Disbursed – The NECI Area Board receives state grants from the Iowa Department of Education and the Iowa Department of Human Services to administer early childhood and school ready programs. Each year, NECI staff prepare an annual report to the Iowa Department of Management which is to be approved by the County as fiscal agent. In reviewing financial activity reported on NECI's annual report as well as the financial activity maintained on the County's computerized information system for fiscal years 2000 through 2014, we identified the following:

Collections from the Iowa Department of Education and the Iowa Department of Human Services were properly deposited with the Sioux County Treasurer's Office in the name of the NECI Area Board for fiscal years 2000 through 2014.

In reviewing disbursement activity for selected years, it was not always possible to reconcile NECI Area Board activity reported in NECI's annual report with information recorded to the County's NECI Area Board account. This was primarily due to NECI Area Board funds being commingled with other types of funding streams, such as Decategorization grant receipts and disbursements, Juvenile Crime Prevention grant receipts and disbursements, Community Partnership grant receipts and disbursements and other state/federal pass-through grant receipts and disbursements. In addition, NECI initiated and organized several annual Early Education Symposiums focusing on engaging early childhood providers for which fees were collected. Financial activity related to the symposiums was also recorded in the County's NECI Area Board account.

NECI staff indicated monthly and annual reconciliations were performed to reconcile County computerized records with NECI reported amounts. However, the reconciliations provided did not document which amounts from County records were excluded or included for the NECI annual report. In addition, reconciliations for earlier years were not available. We were able to follow the method used to track disbursements. However, the time to reconcile activity became extensive.

As a result of the above, we notified you of the time consuming nature involved in reconciling 15 years of disbursement activity as you had initially requested. Based on our discussion and information provided to you, you agreed procedures would be too time consuming and unnecessary. Therefore, we did not complete the schedule of funds received and disbursed.

NECI's annual report included \$83,234 of School Ready funds and \$2,282 of Early Childhood funds carried forward at June 30, 2014 compared to County balances of \$55,649 and \$2,282, respectively, at June 30, 2014. Our review of activity for fiscal year 2014 indicated the variance of \$27,585 resulted from a variance found in the previous year's carry forward for School Ready funds. Because of the lack of an annual reconciliation between County fund balances and the NECI annual report carryforward amount and due to the time consuming nature to resolve the difference between the two records, the variance was not pursued further.

Interest Calculation – The County invested certain deposits in the Iowa Public Agency Investment Trust (IPAIT). The County provides for interest on these deposits to be allocated monthly to individual accounts based on the percentage of each account balance compared to the total County IPAIT investment balance. Generally, each account is adjusted monthly for receipt and disbursement activity in order to maintain a current account balance and allocate interest correctly.

In reviewing the County's IPAIT investment activity for fiscal years 2000 through 2014, the County first established an Empowerment account with IPAIT on March 13, 2003, at which time \$321,017.84 was deposited. Per County Treasurer's Office officials, this initial amount was most likely funds existing at that date for both NECI funds and Decategorization funds. Unlike other IPAIT accounts, these funds were not adjusted for actual receipt and disbursement activity. However, the account was consistently credited with monthly interest. As a result of the adjustments for interest, the balance in the Empowerment account

erroneously grew to \$561,318.49 as of June 30, 2014, which was the amount erroneously reported to NECI officials by Sioux County officials as noted in the first paragraph.

Since the NECI IPAIT balance was not adjusted for receipts or disbursements in spite of NECI funds being received and spent throughout this time period, the NECI IPAIT balance was inflated and, accordingly, the calculated interest on the NECI balance would have been less than the amount reported. The overstated amount of interest earned, if any, cannot be determined without an unreasonable amount of effort.

We also determined the total reported interest for the Early Childhood grant funds classified as federal funds would most likely be reduced considering the minimal carry forward of federal funds for most years of grant funding.

Since Sioux County is no longer the fiscal agent for NECI, no recommendation is considered necessary.

NECI Credit Card Reimbursements – NECI credit cards are available for use by the Director and the Administrative Coordinator to purchase items necessary for NECI operations. The Administrative Coordinator was replaced in April 2014 and was also issued a credit card for use in purchasing items necessary for NECI operations. The Director was responsible for approving the credit card purchases made by the Administrative Coordinator. We obtained copies of credit card statements from January 2012 through March 2015. We judgmentally selected 2 credit card statements from fiscal year 2012, 6 credit card statements from fiscal year 2013 and 6 credit card statements from fiscal year 2014. The following items were identified:

- For the two credit card statements reviewed from fiscal year 2012, 3 NECI charges were tested for supporting documentation. For 2 of the 3 charges, no supporting documentation/receipt could be located. The two charges were for \$99.99 at Best Buy and \$199.95 for Microsoft Office.
- For the six credit card statements reviewed from fiscal year 2013, 25 NECI charges were tested for supporting documentation. For 8 of the 25 charges, no supporting documentation/receipt could be located. The 8 charges were for \$5.14 at McDonalds, \$37.28 at Sarpinos Pizzeria, \$7.79 at McDonald's, \$45.25 at Season Buffet, \$2.65 at Don's Food Center, \$9.96 at Fareway Stores, \$45.00 at USPS and \$20.97 at Subway.
- For the six credit card statements reviewed from fiscal year 2014, 28 NECI charges were tested for supporting documentation. For 10 of the 25 charges, no supporting documentation/receipt could be located. The 10 charges were for \$8.56 at Dollar Tree, \$65.80 at Pospaper.Com, \$18.00 at Pizza Ranch, \$3.54 at Caseys, \$20.19 at Fareway Stores, \$34.29 at Monterrey Mexican Restaurant, \$122.08 at Sterling Hotel, \$26.69 at Bakers Square, \$38.10 at Monterrey Mexican Restaurant and \$18.00 at Rock Rapids Pizza Ranch.
- In December 2013, a green plant from Orange City Floral Company was purchased for \$122.98 and subsequently paid for with NECI funds. The public purpose for this purchase was not documented.
- Prior to May 2014, independent authorization by the Director was documented on the credit card statement for the credit card assigned to the Administrative Coordinator prior to her replacement. However, beginning in May 2014, no independent authorization by the Director was noted on the Administrative Coordinator's credit card statements. In addition, no independent authorization was documented for any charges made with the Director's credit card for those statements selected for review.

Based on discussions with the NECI Area Board Chair and the NECI Director, the purchases not supported with supporting documentation/receipts met the objectives of the NECI funding. However, without documentation, we are unable to determine the propriety of those purchases.

Personal Use of Board Issued Credit Cards – The NECI Area Board adopted a policy in December 2012 stating, “NECI Staff are to use the credit card only for organization expenses and not for personal use. If personal billings occur, the NECI staff is required to include a personal payment with the credit card payment and [this] should not become a practice in the future.”

Of the 14 credit card statements selected for review, 6 credit card statements contained identified personal expenditures ranging in amount from \$73.84 to \$428.10. For the statements containing identified personal expenditures, a personal check was provided in the amount of the identified personal expenditures. Therefore, based on this testing through May 2014, personal expenses were reimbursed by staff at the time payment on the credit card was due.

The County, as fiscal agent, made credit card payments on behalf of NECI using NECI credit card statements through June 30, 2014. However, as a result of NECI utilizing a new fiscal agent beginning July 1, 2014, the process for paying NECI credit card statements changed. As of July 1, 2014, the individual card holder was responsible to pay the amount incurred on the credit card. Reimbursements to the card holder for NECI expenditures were made after the card holder submitted a certified NECI expense summary.

Between June 2014 and November 2015, the Administrative Coordinator’s credit card was used to purchase items necessary for NECI operations as well as personal items. Personal items purchased on her assigned credit card were significant and were not reimbursed timely. From June 2014 through November 2014, purchases charged to the Administrative Coordinator’s credit card totaled \$ 8,969.89. In addition, during this time period, finance charges on the unpaid balance totaled \$253.15 and late fees totaled \$117.00. NECI reimbursements to the Administrative Coordinator for NECI operations totaled \$402.87, which was supported by NECI expense summaries approved by the Director. Per discussion with NECI officials, the bank notified the Board in early calendar year 2015 the Administrative Coordinator’s credit card statement was in arrears. As a result of this notification and a subsequent disciplinary hearing, both credit cards in use were cancelled in February 2015. In March 2015, the Director’s’ credit card statement identified the account was paid in full. However, the Administrative Coordinator’s March 2015 credit card statement showed a balance of \$8,706.08. Subsequent credit card payments were made by the Administrative Coordinator. However, the unpaid balance continued until August 2015. In August 2015, the Administrative Coordinator paid off the entire balance of \$7,234.10 by refinancing the outstanding debt in her name.

Recommended Control Procedures

Based on our findings and observations detailed above, we have the following recommendations to strengthen NECI’s operations.

- A. Annual Report – Section 256I.8 of the Code of Iowa states, in part, the Early Childhood Iowa Area Board shall “submit an annual report on the effectiveness of the community plan in addressing school readiness and children’s health and safety needs to the state board and to the local government bodies in the area.” The annual report template is provided on the Early Childhood Iowa website maintained by the Department of Management. Although a reconciliation between County records and the NECI annual report was provided for certain years, the reconciliation did not contain sufficient detail to show how amounts were recorded in the County’s fiscal agent records.

The annual report submitted for fiscal year 2014 did not reconcile to the Area Board's financial activity. The ending fund balances reported in the annual report for fiscal year 2014 overstated the School Ready funds by \$27,585 when compared to the County's fiscal agent records.

Recommendation – In the future, the NECI Area Board should review and reconcile the annual report carry forward amount with the fiscal agent's year-end ledger balance adjusted for outstanding accruals and make appropriate corrections to the annual report, as necessary.

- B. Personal Use of Credit Cards – As of February 2015, the NECI did not maintain Board issued credit cards. However, a new credit card policy was adopted on April 9, 2015 which states, “[The] NECI Director is issued a credit card to purchase items necessary for NECI operations. The receipts for the charges must be attached to the monthly credit card billing and submitted to an officer of the NECI Board for approval each month. These must be submitted in a timely manner to avoid additional finance charges to NECI. [The] NECI Director is to use the credit card only for organizational expenses and not for personal use.”

Recommendation – In the event the NECI provides credit cards for use by NECI officials, sufficient internal controls should be designed and implemented to ensure no charges are made for personal items, outstanding balances are paid timely and the credit card policy established by the Board in April 2015 is enforced.

- C. Questionable Expenditures – We noted multiple reimbursements for food and restaurant charges for meals eaten on Board meeting days. In addition, we noted the purchase of a green plant from Orange City Floral Company for \$122.98. Per discussion with the NECI Director, this purchase was for a staff member who had lost a family member. This type of expenditure 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 NECI Area Board should determine and document the public purpose served by this type of expenditure before authorizing any further payments. If this practice is continued, the NECI Area Board should establish written policies and procedures which document 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 NECI Area Board, 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 you and officials and staff of Sioux County and the NECI Area Board during the course of our review.


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cc: Joanne Smith, Chair, NECI Area Board
Lois Huitink, Sioux County Auditor