

Des Moines Public Schools Internal Audit Report

Moulton Elementary School Special Investigation

Date: September 25, 2017

Audit Opinion	SATISFACTORY
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Primary Key Risk Areas	Observation Category	Low	Moderate	High	Critical
Compliance					
Financial Reporting	Spending & Monitoring	2			
Human Resources					
Information System					
Operational					

Section I: Overview, Background, Scope, Approach and Conclusion:

A. Overview:

Internal Audit (IA) provides independent, objective assurance and consulting services designed to add value and improve the district's operations. The IA function is established by the Board of Directors (Board), and its responsibilities are defined by the Audit Committee, as approved by the Board. IA staff reports administratively to the Superintendent and functionally to the Audit Committee. IA helps the Superintendent and the Board accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and the overall governance process. IA has no authority over the people and activities being audited. Its independence from operating responsibility promotes objectivity.

IA activities are conducted in compliance with district objectives and policies, as well as adherence to the Institute of Internal Auditors' mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the IA activity's performance.

IA performed a special investigation to address the misuse of public funds and property concerns raised at Moulton Elementary School (Moulton).

Why did IA do this review?

This investigation was initiated after IA received concerns about products purchased for personal usage or not as part of the education process. IA's investigation is being performed to document pertinent details of the propriety of the school's spending, follow-up on concerns received and identify means of preventing future concerns.

All school locations initiate disbursement transactions as part of their operating practices throughout the year. Disbursement transactions are received/made for different reasons and are subject to various established district practices to ensure proper accountability. Whatever the reason for the transaction, it is critical that these transactions comply with district practices.

The investigation supports the following primary priorities and key risks identified by IA during IA's annual risk assessment and review planning process.

Priorities:

- Financial / Operating Sustainability
- Improve Operational Efficiencies

Key Risks:

- Financial Reporting
- Operational

B. Background:

In August 2017, IA began an investigation after being made aware concerns of misuse of public funds and property involving Moulton's principal who had resigned from his position prior to the release of this report.

According to the district's Financial Accounting Manual (FAM), all funds collected through school activities are under the financial control of the Board. Prudent and proper accounting of all receipts and expenditures are, therefore, the responsibility of the Board. The responsibility for school/department budgets and funds has been delegated to the principal/administrator of each site. The principal/administrator of each site has the

authority and responsibility to supervise, direct, and control the activities of those employed to work within that site.

All district funds are public funds and may only be spent for the public benefit. In general, district funds must be spent prudently and are prohibited (not inclusive) from being expended on items above and beyond normal school duties or for personal benefit or use.

C. Approach and Scope:

IA performed an investigation to document pertinent details on the spending at Moulton for the period July 2015 through July 2017. The objectives for investigation are to determine the following:

- Document details on the spending concerns and ascertain whether there is evidence to support the concerns.
- Determine whether established district policies and procedures were followed.
- Determine amounts of questionable costs from district accounts, if any.

The following procedures were performed in completing the investigation:

- Evaluate internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- Review principal's employee reimbursements.
- Review principal's procurement card activity.
- Review school's department procurement cards activity for non-travel purchases.
- Review school's accounts payable activity for purchases at department or bookstores.

The following items were not included in the scope of the special investigation either due to cost/benefit of inclusion or adequate records were not available:

- Travel expenses on school's department procurement cards (unassigned).
- School's accounts payable activity for non-department or bookstore vendors.
- Non-principal employee reimbursements.

D. Conclusion:

Based on procedures performed and with consideration of management corrective action plans implemented, Moulton has satisfactory procedures in place to monitor spending. IA has assessed the corrective action plan prepared by management and is of the opinion that the plan adequately addresses the observations identified in this report. Generally, effective monitoring requires teamwork from all those who are assigned responsibilities for the controls in place to work effectively.

Brett M. Zeller, CPA
Internal Auditor



Section 2: Observations and Corrective Action Plan:

A. Questionable Purchases

Risk Rating	Low
Key Risk Area	Financial Reporting

The FAM and Procurement Card (pCard) Program Handbook provide the district’s financial framework and includes specific procedures to be performed for disbursement transaction and periodic reviews of accounting records to ensure proper financial accountability. All district funds are public funds and may only be spent for the public benefit. The principal of each school has the authority and responsibility to supervise, direct, and control the activities of those employed to work within that school. The Business and Finance Department (B&FD) as requested will provide additional training on required financial procedures throughout the year.

The school must also comply with various Iowa Department of Education policies, rules, and regulations. Iowa Administrative Code 282 chapter 25 Code of Professional Conduct and Ethics requires licensed practitioners to abide by various compliance standards. Converting public property or funds to the personal use of the practitioners is consider a violation of these standards.

IA identified \$4,786.28 in questionable items purchased during the scope of the review. While some items could have been used potentially as part of the Moulton’s educational process in some format or time, in general, the itemized questionable items were exceedingly personalized to the principal’s personal preference, or were not located at school during several IA visits to make observations, but were subsequently returned or reimbursed by the principal prior to the release of this report.

The following table outlines the purchases by category and fiscal year (FY) purchased. See Section 3 Additional Information for detailed information and examples from each category.

Category	FY16	FY17	FY18	Grand Total
Electronics	799.94	399.00	-	1,198.94
Office Decorations	796.50	969.04	222.22	1,987.76
Other	33.73	221.30	262.74	517.77
Personal Clothing & Accessories	-	881.85	16.99	898.84
Yard Games	-	182.97	-	182.97
Grand Total	1,630.17	2,654.16	501.95	4,786.28

Without increased oversight and controls in place, there is an increased risk of funds being misspent. Effective segregation of duties promotes process integrity and assurance that records are complete and all activity has been recorded properly.

Recommendation

All individuals involved with various financial activities including office manager and principal should ensure all personnel who spend district monies on behalf of the district are aware of, and understand their obligation to comply with, the district’s established practices and supplementary policies, rules, and regulations. Purchasers should spend prudently and ensure funds are not expended on items above and beyond normal school duties or for personal benefit or use. Additionally, items purchased should be retained and/or maintained on district premise.

The district and school should continue to monitor and ensure school staff who are involved with various activities have a proper understanding of their responsibilities under the applicable operating procedures and compliance requirements. Adequate follow-up with those involved in ongoing training meetings to confirm proper understanding of, and adherence to, accepted practices should be considered.

Corrective Action Plan			
Person to Lead	Controller	Implementation Date	Oct. 2017
<p>As stated above, it is clearly stated in the B&FD procedures that using district funds to purchase or obtain personal items is not allowed. B&FD makes numerous trips to attendance centers throughout the year to provide additional and ongoing training. B&FD also follows up periodically to ensure procedures are understood and implemented. All users should follow these procedures. In the event they can't or don't understand, they are expected to seek guidance from B&FD at any time. B&FD will continue to train and check in as necessary, but B&FD relies on the users to read, understand, and follow the procedures guide. In the event they fail to do so, it can lead to access rights being removed.</p>			

B. Monitoring and Oversight

Risk Rating	Low		
Key Risk Area	Financial Reporting		
<p>The FAM and pCard Program Handbook provide the district's financial framework and includes specific procedures to be performed for disbursement transaction and periodic reviews of accounting records to ensure proper financial accountability. The principal of each school has the authority and responsibility to supervise, direct, and control the activities of those employed to work within that school. The B&FD, upon request, will provide additional training on required financial procedures throughout the year. The school must also comply with various Iowa Department of Education policies, rules, and regulations.</p> <p>IA observed the following relating to established district practices and supplementary policies, rules, and regulations:</p> <ul style="list-style-type: none"> • While several resources and procedures direct employees to contact either the controller and/or IA with concerns, neither party was contacted by individuals who voiced concerns during IA's transactional investigation. • Department pCards were not always checked out prior to usage. Additionally, the principal would utilize the cards and subsequently approve his own transactions. • PCard reconciler and approver reviews were determined in several instances to be ineffective as IA observed sales tax on receipts that did not appear reimbursed, non-itemized or partial receipts used to support transactions, and lack of review for public benefit. • PCard was utilized to purchase technology without prior approval of the Technology Department as required. <p>Without increased oversight and controls in place, there is an increased risk of funds being misspent. Effective segregation of duties promotes process integrity and assurance that records are complete and all activity has been recorded properly.</p>			
Recommendation			
<p>All individuals involved with various financial activities, including office manager and principal, should ensure all personnel who spend district monies on behalf of the district are aware of and understand their obligation to comply with, the district's established district practices and supplementary policies, rules, and regulations.</p> <p>The district and school should continue to monitor and ensure school staff who are involved with various activities have a proper understanding of their responsibilities and operating procedures and compliance requirements. Adequate follow-up with those involved in ongoing training meetings to confirm proper understanding of and adherence to, accepted practices should be considered.</p>			
Corrective Action Plan			
Person to Lead	Controller	Implementation Date	Oct. 2017

In the event a person is unsure of the procedures or they become aware of an instance where another staff member isn't following the procedures they should reach out to the BF&D and/or the Internal Audit department immediately to seek clarification. The BF&D will continue to provide trainings, support, and guidance for all end users. Additionally, the approval workflow for school principals will be reviewed and updated as determined necessary.

Section 3 Additional Information:

In addition to detailed transaction and process reviews, IA made multiple unannounced and announced visits to Moulton to make observations of past purchases. The additional information in this section includes details from those visits and discussions with personnel involved with the investigation.

Final disposition defined:

- District Retained – Items in question were observed during IA’s observation visits and maintained on the district’s premise following resignation from principal. The district will work to utilize and/or dispose of items in accordance with district practices.
- Reimbursed – Original costs for the items were paid to the district by the principal prior to the release of this report.
- Returned – Items in question were not observed during IA’s observation visits and were returned to the district’s premise by the principal prior to the release of this report. The district will work to utilize and/or dispose of items in accordance with district practices.
- Unknown – Items in question were not observed during IA’s observation visits and were not subsequently located or returned/reimbursed by the principal.

A. Electronic Purchases

While the electronics could potentially be used as part of the Moulton’s educational process, IA was unable to locate the equipment during visits. While the school year is not in session, equipment generally should remain on the district’s premise and be available for school or district usage.

The following list outlines the original costs of the items in question and final disposition following the principal’s resignation.

Description	Final Disposition	FY16	FY17	Grand Total
Bluetooth Speaker	Reimbursed	99.99	-	99.99
Digital Camera & Accessories	Returned	469.96	-	469.96
Smart Watch	Reimbursed	-	399.00	399.00
Sound Bar	Returned	229.99	-	229.99
Grand Total		799.94	399.00	1,198.94

B. Office Decoration Purchases

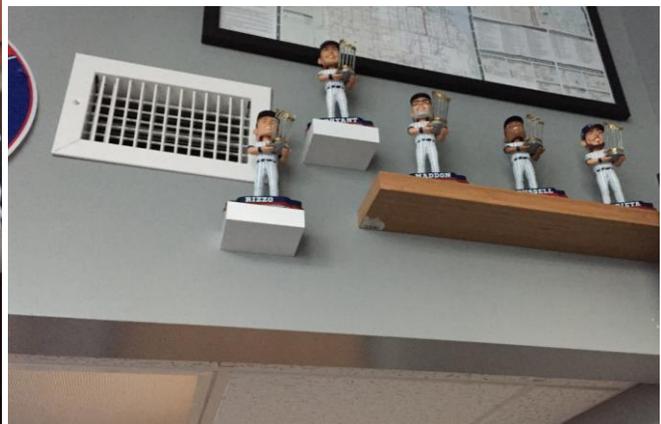
While the office decorations could be an allowable expense, IA has concerns when purchases are exceedingly personalized to an individual’s personal preferences vs being more universal or school/program related. Additionally, several items purchased were referenced as being part of the Moulton’s educational process; but, IA noted during observations that the items appeared to be on display and not used for that purpose.

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The following list outlines the original costs of the items in question and final disposition following the principal's resignation.

Description	Final Disposition	FY16	FY17	FY18	Grand Total
Collectible Books	District Retained	-	29.99	33.99	63.98
Collectible Figure	District Retained	-	66.83	10.95	77.78
Collectible Figures	District Retained	191.96	289.46	177.28	658.70
Collectible Figures & Books	District Retained	505.56	148.60	-	654.16
Collectible Figures & Tins	District Retained	98.98	-	-	98.98
Sports Memorabilia	District Retained	-	362.22	-	362.22
Sports Memorabilia & Collectible Figures and Books	District Retained	-	71.94	-	71.94
Grand Total		796.50	969.04	222.22	1,987.76

Example of purchased items on display in principal's office:



C. Other Purchases

While some of the items could be an allowable expense, IA has concerns when items were not located during visits. Additionally, several items purchased were subsequently determined to not be part of the Moulton's educational process but were generally personal items for the principal.

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The following list outlines the original costs of the items in question and final disposition following the principal's resignation.

Description	Final Disposition	FY16	FY17	FY18	Grand Total
Cell Phone Accessory	Reimbursed		90.37		90.37
Clothing	Reimbursed		55.98		55.98
Credit Card Holder	Reimbursed	24.94			24.94
Food	Reimbursed			73.00	73.00
Headlamp	Returned			24.99	24.99
Kitchen Accessory	Unknown	8.79			8.79
Organizer	Reimbursed		74.95		74.95
Bicycle Helmet	Reimbursed			164.75	164.75
Grand Total		33.73	221.30	262.74	517.77

D. Personal Clothing & Accessory Purchases

While the clothing could potentially be worn during the school day or event, IA has concerns since the items are not a condition of employment, in some cases were worn outside school events, and were maintained at the principal's home. Additionally, the purchases were for the benefit only of the principal and not made available to all staff at the location.

The following list outlines the original costs of the items in question and final disposition following the principal's resignation.

Description	Final Disposition	FY17	FY18	Grand Total
Clothing	Reimbursed	840.72		840.72
Clothing Accessory	Reimbursed	41.13	16.99	58.12
Grand Total		881.85	16.99	898.84

E. Yard Game Purchases

While the yard games could be an allowable expense, IA has concerns when items were not located during visits. While the school year is not in session, equipment generally should remain on the district's premise and be available for school or district usage. Additionally, the school and their partners have programming offered during the summer that could have utilized the items if they were available.

The following list outlines the original costs of the items in question and final disposition following the principal's resignation.

Description	Final Disposition	FY17	Grand Total
Outdoor Games	Returned	182.97	182.97

Section 4: Definitions:

Overall Opinion Issued	
	Satisfactory - Effective system of internal controls. Opportunities may exist to improve efficiency or effectiveness of operations or to enhance the control environment with minimal effort.
	Needs Improvement – Ineffective system of internal controls noted in isolated areas. Management actions required. Existence of multiple risk control findings requiring action to increase control effectiveness and/or efficiency. Savings (perhaps thousands) can potentially be realized by correcting.
	Unsatisfactory - Ineffective internal controls noted impacting several areas. Management action is required immediately. Savings (perhaps millions) can be potentially realized by correcting.
	Consultation - No audit opinion at this time as auditor provided consultation only, without thorough assessment.

Risk Rating for Individual Observations:	
	Low - Risks are immaterial with consideration to the district’s priorities and/or key risks impacted. However, management should consider monitoring the risks and take appropriate action as deemed necessary to prevent the risks from becoming material.
	Moderate - Risks are not significant with consideration to the district’s priorities and/or key risks impacted. However, management should consider developing corrective action plans that will ensure timely mitigation of the risks in order to avoid deteriorating situations.
	High - Risks are significant with consideration to the district’s priorities and/or key risks impacted. Management should consider determining any exposure to date and develop policies or procedures to mitigate the risks as soon as possible.
	Critical - Risks are so material with consideration to the district’s priorities and/or key risks impacted that management should consider determining any exposure to date and, without delay, develop policies or procedures for the immediate mitigation of the risks. Additional funding should be considered if needed to address these risks due to potential total exposure to the district.

Priorities:

IA, as part of the 2017-2018 Rolling Audit Plan, identified five primary priorities to be successful in ensuring that graduates possess the knowledge, skills and abilities for success at the next stage of their lives. The following priorities must be achieved. The primary priorities were selected and defined by IA after a thorough review of the professional literature, discussions with district management and professional colleagues, and evaluations of other public internal audit departments' audit plans and are as follows:

- **Financial / Operating Sustainability** – Implement best practice in school budgeting and program management. Increase focus on core mission and district priorities while reducing reliance on one-time funding sources.
- **Improve Operational Efficiencies** - Improve processes and eliminate waste in various district efforts. With cost savings from being able to do more with less, more funds can be directed to increase the quality of education.
- **Student Development** – Students are engaged and demonstrate an understanding of a rigorous core curriculum, possess the knowledge and skills to be self-directed and autonomous, and have world awareness.
- **System Efficiencies** - Implement and utilize IT systems to more efficiently manage and monitor school assets. Take advantage of current technologies to efficiently use administrative time and increase support capacity without increasing costs.
- **Talent Development** – Strengthen and develop the district's workforce knowledge, skills, and abilities to produce a culture that recruits, engages and retains the best employees.

Risk Factors:

IA, as part of the 2017-2018 Rolling Audit Plan, identified five primary risks that if unmitigated would impact the district's ability to achieve its key priorities. The key risks were selected and defined by IA after a thorough review of the professional literature, discussions with district management and professional colleagues, and evaluations of other government internal audit departments' audit plans and are as follows:

- **Financial Reporting Risks** - Statistical and/or financial data will not be captured or will be reported incorrectly. Adequate segregation of duties and/or internal controls are not in place to ensure the integrity of information and to prevent/detect fraud.
- **Information System Risks** – Adverse impact from the district's use, ownership, operation, involvement, and adoption of information technology (IT) including social media associated with service delivery, solution realization, and benefit realization.
- **Operational Risks** - Daily operating activities, including delivery of education services, may be performed/executed in a manner that is wasteful or inconsistent with the achievement of district objectives. Ineffective communication that results in misunderstanding, reputation damage, or political exposures.
- **Political and Cultural Risks** – Instability arising from changes imposed by various oversight bodies (school board, state government and/or agencies/departments, or federal government and/or agencies/departments) or failing to demonstrate value and accountability to stakeholders. The district is unsuccessful in demonstrating a commonality of purpose, values and ethics with stakeholders including students, staff, parents, and community members.
- **Strategic Risks** - Events or issues that affect the district's ability to achieve its goals (strategic mission). The district fails to incorporate effective risk management and budgeting as part of the decision process or fails to respond to fluctuations in the educational environment.

Corrective Action Plan:

At the completion of the audit, district management responsible was requested to prepare a corrective action plan to address each audit observation included in Section 2: Observations. The corrective action plan shall provide the name of the person(s) responsible for leading the corrective action, the corrective action planned, and the implementation date.

- **Person to Lead** - This person's role is only to lead through developing the framework of the corrective action with implementation resting on all individuals involved with observation.
- **Implementation Date** - Provides a timetable for anticipated completion of action to be taken. IA will be responsible for appropriate follow-up on engagement observation and recommendations. All significant observations will remain in an open issues file until cleared by IA follow-up work.

Section 5: Distribution List:

Audit Committee

Thomas Ahart, Superintendent

Bill Good, Chief Operations Officer

Thomas Harper, Chief Financial Officer

Anne Sullivan, Chief Human Resources Officer

Matt Smith, Chief Schools Officer

Brenda Edmundson-Colby, Chief Academic Officer

Nick Lenhardt, Controller

Susan Tallman – Executive Director – Elementary Schools

Mike Lord – Director of Elementary Schools

Edward McCulley, Moulton Principal

Tami Kusian, Office of Auditor of State - Performance Investigation Division Deputy Auditor

Bret Lucas, Polk County - Assistant Attorney