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STATE OF IOWA**

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NEWS RELEASE

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FOR RELEASE June 30, 2021

Auditor of State Rob Sand today released a report on a special investigation of the Des Moines Independent Community School District (District) for the period August 1, 2014 through June 30, 2020. The special investigation was requested by District officials as a result of concerns regarding certain financial transactions involving former Horticulture Teacher, Craig Nelson. Mr. Nelson was responsible for overseeing the Horticulture program within the District which included providing practical, hands on experiences for students using a large greenhouse. Mr. Nelson was responsible for facilitating all financial transactions associated with the greenhouse operations and annual community plant sale, as well as organizing an annual international trip for students. He was terminated from employment with the District in April 2021.

Sand reported the special investigation identified \$19,508.61 of improper disbursements, including \$18,113.75 of payments to Mr. Nelson's spouse and \$1,394.86 of Menards rebates which were used for personal purposes. Mr. Nelson's spouse was hired as an independent contractor for the greenhouse to perform bookkeeping tasks and greenhouse work, reporting directly to Mr. Nelson. However, the District employs several full-time bookkeepers, and the Horticulture program heavily relies on students or parent volunteers to perform greenhouse work.

Sand also reported the amount deposited from the plant sale held after Mr. Nelson's termination in 2021 increased significantly from prior years. However, because inventory and detailed sales records were not available prior to 2021, it was not possible to determine if the deposits increased because sale proceeds were properly deposited to the District's bank account, because more plants were sold, or a combination of these factors. District officials reported the Horticulture program expanded their plant offerings in 2021.

In addition, Sand reported all collections should be deposited with the District in accordance with established policies; however, Mr. Nelson deposited \$6,252.00 he collected from students for

costs associated with international trips to his personal bank accounts. He also reimbursed students \$12,963.80 from his personal bank accounts. Sand reported it was not possible to determine if additional amounts Mr. Nelson collected from students were deposited to his bank account, a different bank account, or were not deposited at all because sufficient records were not available.

The report includes recommendations to strengthen the Districts' internal controls, such as improvements to segregation of duties, ensuring sufficient supporting documentation is obtained for all disbursements, and ensuring all employees are aware of and comply with employee conduct policies established by the District.

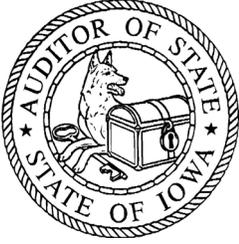
Copies of this report have been filed with the Iowa Division of Criminal Investigation, the Polk County Attorney's Office, and the Iowa Attorney General's Office. A copy of the report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
DES MOINES INDEPENDENT COMMUNITY SCHOOL DISTRICT
HORTICULTURE AND ANIMAL SCIENCE DEPARTMENT
FOR THE PERIOD
AUGUST 1, 2014 THROUGH JUNE 30, 2020**

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Auditor of State's Report

To the Members of the Board of Education
of the Des Moines Independent Community School District:

As a result of alleged improprieties regarding certain financial transactions and at the request of officials of the Des Moines Independent Community School District (District), we conducted a special investigation of the Horticulture Department (Department). We have applied certain tests and procedures to selected financial transactions of the Department for the period August 1, 2014 through June 30, 2020, except as noted below. Based on a review of relevant information and discussions with District officials and staff, we performed the following procedures.

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Obtained and examined statements for certain District procurement cards to analyze greenhouse expenses and determine if purchases resulted in consumer rebates issued to the former Horticulture Teacher, Craig Nelson, and whether the rebates were redeemed for District purchases.
- (3) Obtained and examined the District's accounts from September 1, 2015 through June 30, 2020 to determine if student international trip deposits were properly deposited and if trip refunds were properly returned to the students in the event the trip was canceled.
- (4) Obtained confirmations from students that attended the international trips between 2016 and 2020 to determine if we could trace collections to a deposit in Mr. Nelson's bank account.
- (5) Obtained and examined District accounting records from the Annual Plant Sale for the period July 1, 2016 through May 31, 2021 to identify amounts deposited. Also, reviewed annual plant sale expenditures through June 30, 2020 to determine if it was possible to calculate an estimated cost per plant.
- (6) Obtained and reviewed payment information for Mr. Nelson's spouse, Nataliya Korostil, to determine whether Ms. Korostil's payments were reasonable.
- (7) Obtained and reviewed personal bank statements held by Mr. Nelson for the period July 1, 2015 through June 30, 2020 to identify the source of certain deposits. We also reviewed disbursements from the accounts to determine if any payments were made to the District or to students.

These procedures identified \$19,508.61 of improper disbursements including payments to Mr. Nelson's spouse and Menards rebates which were used for personal purposes. The procedures also determined the amount deposited from the 2021 plant sale increased significantly from prior years. However, because inventory and detailed sales records were not available prior to 2021, it was not possible to determine if the deposits increased because sale proceeds were properly deposited to the District's bank account, because more plants were sold, or a combination of these factors. District officials reported the Horticulture program expanded their plant offerings in 2021.

The procedures also identified collections deposited to Mr. Nelson's personal bank account which should have been deposited with the District in accordance with established policies. Specifically, Mr. Nelson deposited \$6,252.00 he collected from students for costs associated with international trips. He also reimbursed students \$12,963.80 from his personal bank accounts. We were unable to determine if additional amounts Mr. Nelson collected from students were deposited to his bank account, a different bank account, or were not deposited at all because sufficient records were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary.

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 additional procedures, or had we performed an audit of financial statements of the Des Moines Independent Community School District, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Iowa Division of Criminal Investigation, the Polk County Attorney's Office, and the Iowa Attorney General's Office.

We would like to acknowledge the assistance extended to us by officials and personnel of the Des Moines Independent Community School District during the course of our investigation.



ROB SAND
Auditor of State

June 21, 2021

Des Moines Independent Community School District
Investigative Summary

Background Information

The Des Moines Independent Community School District (District) is located in Des Moines, Iowa and serves approximately 33,000 kindergarten through 12th grade students in Polk County. The District is governed by a Board of Directors (Board) comprised of seven members who are elected to four-year terms on a non-partisan basis.

The Horticulture and Animal Science Department is responsible for providing practical, hands on experience to High School students attending Central Campus through a District owned greenhouse. Plants are grown and cared for at the greenhouse by students throughout the year. Each spring, the Department holds a plant sale, which is open to the community. The annual plant sale is primarily ran by the students with oversight provided by the Horticulture Teacher and parent volunteers. Proceeds from the annual plant sales are accepted in the form of cash, checks, and credit cards.

Craig Nelson began his employment with the District as the Horticulture Teacher on August 16, 2007, a position he held until he was placed on paid administrative leave on May 11, 2020. During his tenure, he was responsible for overseeing the day-to-day activities within the District greenhouse and horticulture program. According to Mr. Nelson's job description, his responsibilities also included the following duties:

- "Directs and supervises learning activities."
- "Supervises students on numerous field trips to agricultural related facilities."
- "Assists students in preparing for annual plant exhibitions and sales."
- "Maintains facility and grounds (limited Facilities Management services provided)."
- "Collects fees from students; submits annual budget for equipment and supplies."
- "Returns profits from plant sales to program needs."

In May 2020, the District's Human Resources Department contacted the District's Internal Auditor with concerns of misappropriation of funds within the greenhouse and allowing a plant sale outside of the greenhouse. As a result of the concern, the District's Internal Auditor started an internal investigation. On May 11, 2020, Mr. Nelson was placed on paid administrative leave pending an internal investigation.

As part of the internal investigation, District officials gathered available supporting documentation for plant sales and greenhouse operations and interviewed students of the Horticulture and Animal Science program and parent volunteers. During the review of the supporting documentation obtained, the District's Internal Auditor identified numerous control weaknesses within the greenhouse.

District officials met with Mr. Nelson on May 26, 2020 to discuss greenhouse operations, sales, and record keeping. District officials reported Mr. Nelson claimed during the meeting that no inventory is kept for plants and he grows a large part of what is sold. In addition, Mr. Nelson stated proceeds from the daily sales were frequently taken home with him to reconcile.

According to supporting documentation obtained from District officials, Mr. Nelson remained on paid administrative leave through January 17, 2021. Mr. Nelson resumed duties as a long-term substitute after his administrative leave expired. As a long-term substitute, he was not responsible for any collections. However, according to District officials, Mr. Nelson never showed up for work as a long-term substitute. As a result, on April 6, 2021, the Board of Directors terminated Mr. Nelson's teaching contract with the District.

As a result of the concerns identified by District officials, the Office of Auditor of State was requested to review certain transactions for the Department. We performed the procedures detailed in the Auditor of State's Report for the period July 1, 2015 through June 30, 2020.

Detailed Findings

The procedures performed identified \$19,508.61 of improper disbursements, including payments to Mr. Nelson’s spouse and Menards rebates which were used for personal purposes. The procedures also determined the amount deposited from the 2021 plant sale increased significantly from prior years. However, because inventory and detailed sales records were not available prior to 2021, it was not possible to determine if the deposits increased because sale proceeds were properly deposited to the District’s bank account, because more plants were sold, or a combination of these factors. District officials reported the Horticulture program expanded their plant offerings in 2021.

The procedures also identified collections deposited to Mr. Nelson’s personal bank account which should have been deposited with the District in accordance with established policies. Specifically, Mr. Nelson deposited \$6,252.00 he collected from students for costs associated with international trips. He also reimbursed students \$12,963.80 from his personal bank accounts. We were unable to determine if additional amounts Mr. Nelson collected from students were deposited to his bank account, a different bank account, or were not deposited at all because sufficient records were not available.

Findings identified are summarized in **Table 1** and a detailed explanation of each finding follows.

Table 1		
Description	Amount	
Improper disbursements:		
Payments to Mr. Nelson’s spouse	Page 11	\$ 18,113.75
Menards rebates	Page 12	1,394.86
Total		\$ 19,508.61

We contacted Mr. Nelson’s attorney and requested a meeting with Mr. Nelson to obtain an understanding of his job duties for the District, processes followed within the greenhouse, and how collections from students were handled. However, phone calls and emails to Mr. Nelson’s attorney were not returned.

UNDEPOSITED COLLECTIONS

As previously stated, according to Mr. Nelson’s job description, his responsibilities included collecting fees from students for the international trips and annual plant sales. We reviewed supporting documentation to determine if collections from the plant sales and students were properly recorded and deposited in the District’s bank account. The plant sales and student fees are explained in detail in the following paragraphs.

Plant Sales Collections

As previously stated, the Department holds a plant sale from approximately mid-April to early June each year which is open to the community. The plants are grown and cared for by students throughout the year. According to the District’s policy, receipt books are issued for money collected on behalf of the District. The receipt books are to be returned to the bookkeeper no later than the end of the school year. All money received should be recorded individually in the pre-numbered receipt book, and the receipt book should be locked in a secured location. In addition, money should never be stored in classroom desks, cabinets, or other places that cannot be properly safeguarded. Also, all money collected must be documented on a Cash Count Report and counted by two individuals before deposit.

According to District representatives, there was a cash register used within the greenhouse, which was donated by a parent. District officials stated the cash register was in working order and capable of tracking sales activity. However, receipts from the cash register were not provided to customers.

Manual logs were used to track walk-in sales, which were remitted to the Central Campus bookkeeper with the deposit. However, cash collected was often recorded in total at the bottom of the logs and not recorded individually as it was received. Money collected from the plant sales was not secured on District property at the end of each day but was instead taken home with Mr. Nelson to reconcile to the amount of sales recorded in the manual logs.

As a result of restrictions related to COVID-19, the 2020 annual plant sale was set up as a pre-sale event, which was organized by a parent volunteer. Credit card payments were accepted online with curbside pickup available. Receipts were generated for the online purchases. However, the Department also continued in-person plant sales paid for with cash, check, or credit card. According to interviews conducted by District officials, several checks were written directly to the volunteer instead of the District and subsequently deposited in the volunteer’s personal bank account. The volunteer issued a check to the District for the amount collected; however, the completeness of that amount could not be verified. According to the parent volunteer interviewed by the District, this process was approved by Mr. Nelson.

The parent volunteer also explained Mr. Nelson was not always present when plant sales occurred, and students were responsible for collecting the cash and check payments. However, only Mr. Nelson and his spouse were able to accept credit card payments.

During an interview conducted by District officials with Mr. Nelson, he reported the cash register was not used to track sales. He also reported he reconciled the sales from the manual logs to the amounts collected, sometimes with help from Nataliya Korostil. Ms. Korostil is Mr. Nelson’s spouse; however, we were unable to determine when they married. The manual logs show that cash sales were not individually recorded. Instead, they were frequently shown in total at the end of the daily activity. During the District officials’ meeting with Mr. Nelson, they asked why cash transactions were shown at the end of the log on most days. Cash transactions should have been recorded throughout the day. District officials reported Mr. Nelson was not able to provide an explanation. He also stated sales were recorded in the information provided to the bookkeeper.

According to Mr. Nelson, there was not a safe available within the greenhouse prior to 2020. As a result, money was taken home to reconcile. Mr. Nelson explained a safe was added to the greenhouse in 2020 and he was the only one that had access to its contents. According to District officials, Mr. Nelson did not see an issue with taking money home. The District’s Financial Services Procedural Manual requires money collected must be deposited into the bank intact. Specifically, cash, coin, and (collective) check amounts should be logged on a Bankers Trust deposit slip if the deposit is scheduled to be picked up by a District official. If a site does not have access for deposit pick-ups, money should be hand-delivered weekly to the Business Office.

As part of the District’s Internal Auditor’s review, a listing of collections for the annual plant sales based on deposits into the District’s bank account for 2017-2020 was prepared. We also obtained collections for the 2021 plant sales deposited with the District. **Table 2** summarizes the deposits for the plant sales held in 2018 through 2021.

Table 2

Year	Type of Collections			Total
	Cash	Checks	Credit Card	
2018	\$ 18,081.89	9,923.42	41,409.19	69,414.50
2019	17,641.00	7,959.30	45,102.47	70,702.77
2020	21,489.09	14,760.97	26,356.35	62,606.41
2021^	25,110.76	20,235.89	52,723.81	98,070.46

^ - As of May 31, 2021.

As illustrated by the **Table**, deposits increased for the annual plant sale each year with the exception of 2020, which was expected due to COVID-19 restrictions. As previously stated, Mr. Nelson was terminated from employment on April 6, 2021. As a result, he was not involved in the collection of proceeds for the 2021 plant sale. As illustrated by **Table 2**, the 2021 plant sales were significantly greater than the previous years.

As previously stated, Mr. Nelson did not maintain any inventory records for the plants within the District greenhouse. During discussions with District officials, he reported that he and students grow and propagate 90% of the plants that are sold from the greenhouse. The documentation available included receipts for supplies such as fertilizer, soil, and seeds which were purchased with Mr. Nelson's District procurement card.

While inventory and detailed sales records were not maintained prior to 2021, District officials reported the Horticulture program expanded their plant offerings in 2021. Because inventory and detailed sales records were not available for prior years, we are unable to determine if the 2021 deposits increased because sale proceeds were properly deposited to the District's bank account, because more plants were sold, or a combination of these factors.

In addition, we reviewed deposit detail from Mr. Nelson's personal bank accounts to identify any deposits of plant sales collections. While some detailed deposit information is available, several deposits are lacking supporting documentation. In addition, we identified eight cash deposits between September 1, 2015 and June 1, 2020 totaling \$4,400.00; however, the source of the cash collections is unknown. Because Mr. Nelson's attorney did not return our call requesting a meeting, we were unable to ask Mr. Nelson the source of the cash deposits. We did not identify any checks from the plant sales deposited in Mr. Nelson's personal bank account.

Because inventory and detailed sales records were not available, we were unable to determine if all proceeds from the plant sales were properly deposited with the District. As a result, we have not included an amount in **Table 1**.

International Trip

Each year Horticulture students were given the opportunity to take part in an international trip. The trips are traditionally held at the end of the school year. According to students interviewed by District officials, there were certain requirements that had to be met in order to be eligible to participate in the trip, including achieving qualifying grades, completing an established number of hours worked in the greenhouse, and demonstrating leadership skills.

For students deemed eligible to participate in the international trip, the District paid for lodging costs and airfare to the primary destination. However, the District did not collect payments for other costs associated with the annual trips, such as travel costs to secondary destinations, meals, or costs associated with events or tourist destinations. Those costs were paid directly by students in most instances.

Students reported to District officials Mr. Nelson required students who wished to participate in the international trip to remit payments directly to him in the fall of the year which totaled \$400.00 to \$450.00. The students reported a \$100.00 payment was initially required and then \$50.00 payments were required each month. According to the students interviewed by District officials, Mr. Nelson accepted both cash and checks made payable to him and he provided handwritten receipts to the students for the payments received. Using District financial records, we confirmed these payments were not deposited to the District.

According to student interviews conducted by District officials, Mr. Nelson issued personal checks to students participating in the trip prior to the departure date. According to students, Mr. Nelson kept a portion of the payments made to him and reimbursed the remainder to the students. Money reimbursed to the students by Mr. Nelson was to help provide students with some spending money

while on the trip. The portion not reimbursed to the students was to pay for certain costs incurred during the trip, such as group meals or similar costs. For example, according to a parent of a student who attended the international trip in 2018 to Thailand, “Mr. Nelson let the students do most of the planning and they later voted to travel to the southern part of Thailand from Bangkok, which was not planned or budgeted for initially, and airfare had gone up by the time they decided, so the kids voted and parents agreed that deposit money would go toward the extra costs of that.” The students reported to District officials, none of the amounts collected by Mr. Nelson were used to offset trip expenses incurred by the District.

We obtained detailed bank statements, images of deposit information, and images of checks issued from Mr. Nelson’s personal bank accounts. We also obtained from a District representative a list for all students who participated in the trips for the 2015/16 school year through the 2019/20 school year. By reviewing images of checks issued from Mr. Nelson’s personal bank account, we identified 44 reimbursements issued to the students from Mr. Nelson which totaled \$12,963.80.

Based on our review of Mr. Nelson’s bank statements and confirmations from students, the amounts deposited for each student in 2016 and 2017 ranged from \$350.00 to \$450.00 and he reimbursed students the full amount of their deposit. However, starting with the 2017/18 and 2018/19 school years, only a percentage of the deposits were returned to the students by Mr. Nelson and he kept the remaining portion. During our review of Mr. Nelson’s bank statements, we determined student deposits in 2017/18 and 2018/19 were \$450.00 per student. However, Mr. Nelson only reimbursed each student \$290.67 in 2018 and \$278.31 in 2019, which is only 65% and 62% of the amounts remitted to Mr. Nelson, respectively. We attempted to contact Mr. Nelson’s attorney to discuss why the deposits were not returned in full for 2018 and 2019; however, he did not return our request for communication.

During our review of Mr. Nelson’s personal bank accounts, we identified \$6,252.00 included in 33 deposits in his personal bank account from students for the international trips from October 1, 2015 through March 31, 2020. Included in these deposits were payments from or on behalf of students for whom the District did not obtain an airline ticket for the International trip associated with the Horticulture Department of the District. However, we were able to determine Mr. Nelson reimbursed the additional students for their deposits via personal checks. Based on the number of students that participated in the trips and the amounts students reported they paid to Mr. Nelson, we determined not all collections he received from the students were deposited to his personal bank account.

In addition, we obtained and reviewed copies of the receipt books used by Mr. Nelson. We attempted to reconcile the collections received to Mr. Nelson’s bank accounts. However, the carbon copy of certain receipts was often written over several times; as a result, the information recorded was not legible.

As previously stated, Mr. Nelson reimbursed students \$12,963.80 but only \$6,252.00 of related deposits could be identified which resulted in a difference of \$6,711.80. As a result, it is reasonable to expect additional amounts were collected. However, we are unable to determine if additional amounts collected were deposited to his bank account, a different bank account, or were not deposited at all. As previously stated, we also identified eight cash deposits between September 1, 2015 and June 1, 2020 totaling \$4,400.00; however, the source of the cash collections is unknown.

In addition, because reimbursements were not paid in full for school years 2017/18 and 2018/19, there could be additional collections from students which were not properly reimbursed by Mr. Nelson. However, due to the lack of supporting documentation, we were unable to determine the subsequent disposition of these funds.

During our testing, we sent letters to parents of the students who attended the international trips for the 2015/16 through 2019/20 school years to determine if they maintained any documentation for payments made to Mr. Nelson and/or any reimbursements received from Mr. Nelson. As of

March 30, 2021, we received two responses from our inquiry. The details of the responses are summarized below.

- An individual sent us images of check carbon copies and receipts totaling \$450.00 remitted to Mr. Nelson for the international trip in 2019. According to the individual, students were required to make a \$100.00 down-payment. Students participating in the trip were to remit payments to Mr. Nelson on the 15th of every month until they reached the designated deposit amount. The individual also reported they gave the payments to Mr. Nelson and he issued them a receipt.

We compared the images of the check carbon copies and receipts received from the individual to the deposit detail for the available bank accounts held by Mr. Nelson and identified only \$50.00 of the \$450.00 remitted to Mr. Nelson in deposits in Mr. Nelson's bank account. We were unable to determine if the remaining checks remitted to Mr. Nelson were cashed or deposited to another bank account.

- An individual reported they did not have any receipts but described the process for the International Trip their student attended in 2018. According to the individual, Mr. Nelson started requiring a deposit because some students had changed their minds after non-refundable airfare tickets were purchased. In addition, Mr. Nelson provided receipts for all payments towards the deposit. The individual also stated the students had a lot of input regarding where they would like to travel and what they would like to do. As a result, for the 2018 international trip, the students and the parents agreed that the deposit money would go towards the extra costs of that trip such as airfare tickets between different countries or whole group meals. According to the individual, all funds for this trip were accounted for.

As previously stated, the District's Financial Services Procedural Manual requires money collected must be deposited into the bank intact. Specifically, cash, coin, and (collective) check amounts should be logged on a Bankers Trust deposit slip if the deposit is scheduled to be picked up by a District official. If a site does not have access for deposit pick-ups, money should be hand-delivered weekly to the Business Office.

Because sufficient supporting documentation was not available, we are unable to determine the total amount Mr. Nelson collected from students for costs associated with the international trips which should have been deposited with the District. As previously stated, we identified \$6,252.00 deposited to his personal accounts and \$12,963.80 reimbursed to students from his personal accounts. In accordance with District policies, all collections should have been deposited with the District. In addition, any related disbursements should have also been handled by the District following applicable policies. Because the amount of reimbursements issued from Mr. Nelson's personal bank accounts exceeded the amounts deposited to the accounts, none of the collections are included in **Table 1**.

IMPROPER DISBURSEMENTS

As the Horticulture Teacher, Mr. Nelson was responsible for certain disbursements related to the greenhouse operations. As previously stated, he was responsible for purchasing supplies and materials for greenhouse operations. Mr. Nelson was issued a procurement card by the District to make purchases of this nature. The District Internal Auditor also raised concerns regarding payments issued to Mr. Nelson's spouse, Ms. Korostil, for working at the greenhouse. Specifically, Ms. Korostil was paid significantly more than other external vendors for general labor.

We reviewed the purchases made with the District procurement card assigned to Mr. Nelson for the period January 1, 2014 through June 30, 2020 and we reviewed the payments made to Ms. Korostil for the period June 1, 2016 through May 1, 2020.

Payments to Mr. Nelson's Spouse

As previously stated, Mr. Nelson was responsible for overseeing the greenhouse operations and relied heavily on student participation and parent volunteers. Money collected for plant sales was primarily handled by Mr. Nelson. According to District officials, Mr. Nelson determined he needed assistance operating the greenhouse starting in May 2016. Ms. Korostil became an approved external vendor for the District for general labor who worked only in the greenhouse. Prior to April 2016, no one was paid to assist in the greenhouse.

According to District officials, Ms. Korostil assisted Mr. Nelson with the bookkeeping tasks for the greenhouse and annual plant sales. In addition, she helped with the greenhouse operations. According to District officials, Ms. Korostil reported directly to Mr. Nelson, and Ms. Korostil's time keeping documents were submitted to the Central Campus bookkeeper by Mr. Nelson.

According to District officials we spoke with, hiring Ms. Korostil as a contractor was approved within the District accounting system by a Director who is no longer employed by the District. The only document the District was able to provide regarding Ms. Korostil's hiring was a W-9, which was dated May 31, 2016. However, Ms. Korostil claimed and was paid for hours in both April and May 2016. Because sufficient records were not available, we were unable to determine if Ms. Korostil was approved as an external vendor prior to May 31, 2016. According to District officials we spoke with, the District does not have a process by which vendors are approved prior to obtaining goods or services from them. Instead, purchasing from vendors is governed by the District's established policies regarding allowable and unallowable purchases.

While the District does not have a vendor approval process, a District official reported effective in March 2021 vendors are now required to complete a vendor payment packet which includes questions regarding conflict of interest. Answers to the conflict-of-interest questions are used to make the District aware of any relevant relationships and allow for appropriate monitoring. As an external vendor for the District prior to 2021, Ms. Korostil was not required to complete a vendor packet.

Section 402.3 of the District's policies and procedures addresses nepotism and states, in part, "No person shall directly supervise a member of his or her immediate family. Immediate family includes spouse, children, siblings, parents, stepchildren or in-laws. Exceptions to this policy, must be approved in writing by the Superintendent." According to District officials, no such approval was provided by the Superintendent. While this policy is applicable to District employees supervising family members who are also District employees, it does not provide restrictions against District employees supervising family members who are vendors paid by the District. However, as a District employee, Mr. Nelson should have been aware of the nepotism policy and the spirit of its intent. As a result, his wife should not have been employed as a vendor with only Mr. Nelson providing supervision of the duties she carried out.

We obtained a copy of the initial non-District employee pay authorization from June 2016 listing Ms. Korostil as an external vendor for the plant sale. In addition, the District compiled a listing of all payments made to Ms. Korostil, as well as the approving supervisor, based on the District accounting system and handwritten calendars prepared by Ms. Korostil and submitted to the bookkeeper by Mr. Nelson. We reviewed the timecards and compared them to the District accounting records and did not identify any discrepancies.

We also obtained and reviewed the billing information from the District's accounting system for Ms. Korostil, which was prepared by the District's Internal Auditor. We determined Ms. Korostil's hourly rate was higher than other external vendors paid by the District for casual labor. Ms. Korostil was paid \$15.00 per hour for her work at the greenhouse while other casual laborers reviewed were paid approximately \$11.00 per hour.

From April 1, 2016 through May 1, 2020, Ms. Korostil claimed and was paid by the District for 1,207.58 hours, totaling \$18,113.75. Ms. Korostil submitted handwritten hours on calendars to Mr. Nelson for payment. Because Mr. Nelson directly supervised Ms. Korostil who was an immediate family member, the \$18,113.75 paid to Ms. Korostil is included in **Table 1** as an improper disbursement.

Menards Rebates

As previously stated, Mr. Nelson was issued a procurement card (p-card) for District purchases in January 2014. According to District officials, purchases on the p-card are monitored and reconciled within the District. A list compiled by District officials of the 140 purchases made with the p-card between January 2014 and May 2020 shows Mr. Nelson only used his p-card to make purchases at Menards. Based on the available supporting documentation, District officials determined the purchases were appropriate for District operations.

District officials also researched the Menards purchases through the public consumer rebate website and determined Mr. Nelson requested and received numerous rebates for District purchases dating back to 2018. However, District officials were not able to determine what was purchased with the rebates that were redeemed.

We obtained and reviewed the p-card information compiled by the District. The District provided credit card numbers for eight p-cards that were issued to Mr. Nelson during his tenure. We contacted Menards and requested rebate information for all purchases made with the eight p-cards for the period January 1, 2014 through February 23, 2021. As a result of our request, Menards provided the name, address, rebate number, and detailed redemption information for each rebate that was issued for purchases made with a District p-card.

Using the information obtained from Menards, we determined Mr. Nelson obtained 71 consumer rebates totaling \$1,394.86 which were issued to his home address. The purchases related to all 71 rebates were made between August 1, 2014 and May 31, 2020 with the p-card assigned to Mr. Nelson and were purchases made for District operations. Of the 71 rebates earned, 70 were redeemed for purchases that were paid for with cash or a personal credit card. Reimbursement requests were not submitted to the District for any of the purchases. The remaining rebate which totaled \$38.94 had not been redeemed as of February 23, 2021. However, because it was sent to Mr. Nelson's home address, District representatives are not able to use the rebate to reduce the cost of a District purchase.

Because rebates were earned on purchases made with a District p-card which was ultimately paid for with District funds, the rebates should have been remitted to the District to be used to reduce the total cost of additional purchases made at Menards on behalf of the District. Instead, the rebates were sent to Mr. Nelson's home and 70 of the 71 issued were used to reduce the cost of personal purchases. As a result, we included the \$1,394.86 of rebates in **Table 1** as improper disbursements.

Recommended Control Procedures

An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the District's internal controls.

- A. Segregation of Duties and Internal Controls – An important aspect of internal controls is the segregation of duties among individuals to prevent one person from handling duties which are incompatible and ensuring an appropriate level of review and approval is performed by an independent individual.

Mr. Nelson and his wife had control over the proceeds from plant sales and Mr. Nelson reported they often took the proceeds home in the evening prior to depositing them to the District or a bank account. No one independent of Mr. Nelson and his wife verified the accuracy and completeness of the deposit records and amounts subsequently remitted to the District. In addition, Mr. Nelson made purchases on behalf of the District using a p-card without prior approval of an independent party, as allowed by District policy. However, subsequent reviews of the purchases by an independent party did not ensure the consumer rebates awarded by Menards were applied to purchases for the District. Documentation obtained from Menards shows Mr. Nelson used the rebates for personal purchases.

Recommendation – The District has established policies which address segregation of duties and require dual signatures and independent verification on all money collected. The DMPS Financial Services Procedure Manual states in part, “To achieve a proper check and balance, there must be an appropriate and adequate segregation of duties based on the resources available. This means that no one individual should perform all phases of a transaction. Principals/administrators are REQUIRED to assign accounting duties among available office staff — NOT TEACHERS — to achieve a reasonable amount of segregation.”

District officials should ensure those responsible for collecting money comply with District policy by establishing oversight procedures such as independent verification and dual signatures on all deposits. In addition, receipts should be provided for all money collected and copies maintained for District records.

In addition, District officials should establish written policies to ensure any rebates obtained when using a District p-card are used for District purchases and refunds or returns of purchases made with p-cards are refunded to the p-card or otherwise provided to the District.

- B. Supporting Documentation – Supporting documentation was not maintained for the tracking of plant sales or inventory within the greenhouse. As a result, District officials did not have sufficient information to determine if all plant sale collections were properly deposited.

In addition, documentation such as receipts, was not available to District officials regarding amounts collected by Mr. Nelson from students for deposits on international trips.

Recommendation – District officials should ensure sufficient information, such as detailed itemized receipts, are provided for all purchases of plants and related supplies. In addition, inventory records of the number and type of plants should be created prior to the annual plant sale. The inventory records should be verified by an independent count and procedures established to allow for adjustments needed for spoilage of plants that cannot be sold. In addition, a listing of each type of plant offering and the related sales price should be maintained.

In 2021, the District implemented a point-of-sale system to record plant sales and maintain inventory records. District officials should also establish procedures which require the inventory records be periodically compared to the amounts collected during the plant sale by an independent party and all significant variances resolved in a timely

to District officials for verification procedures. District officials should also ensure they manner.

In addition, District officials should ensure all District employees maintain sufficient records of all collections received on behalf of students, such as prenumbered receipts, which are appropriately provided are aware of all employees receiving such collections, the reasons for the collections, and be able to verify all collections are properly remitted to the District's administrative office.

- C. Consumer Rebates – A former District employee used the District procurement card assigned to him to purchase items from Menards for greenhouse operations and obtained consumer rebates for some of the purchases. Of the 71 rebates obtained, all were issued to his home address and 70 were redeemed for personal purchases.

Article III, Section 31 of the Constitution of the State of Iowa states, in part, no public property shall be appropriated for private purposes. In addition, the District has established a policy regarding employee conduct which specifies offenses that can result in disciplinary action. The offenses identified by the District include “careless, negligent, or improper use of property.” District property includes equipment and funds.

Recommendation – District officials should review the existing code of conduct policy to determine if it should be revised to specify:

- District funds are prohibited from being used to purchase personal items and/or items which are not necessary or appropriate for District operations.
- Consumer rebates issued as a result of District purchases shall remain District property.

- D. Nepotism and Conflict of Interest Policies – According to section 402.3 of the District's policies and procedures, “No person shall directly supervise a member of his or her immediate family. Immediate family includes spouse, children, siblings, parents, step-children or in-laws.” This policy is applicable to District employees supervising family members who are also District employees. However, it demonstrates the District's intent to prohibit District employees supervising family members. Mr. Nelson supervised the work performed by his spouse at the greenhouse.

In addition, effective in March 2021 vendors are required to complete the vendor payment packet which includes questions regarding conflict of interest. Answers to the conflict-of-interest questions are used to make the District aware of any relevant relationship and allow for appropriate monitoring. However, prior to March 2021, there were no procedures in place for external vendors. As a result, a vendor packet was not required for Ms. Korostil.

Recommendation – District officials should implement procedures to ensure all employees are aware of and comply with the District's Nepotism policy. District officials should also review the current nepotism and conflict of interest policies to determine if it should be expanded to include significant others and vendors and/or their employees with whom District employees may have a personal relationship.

In addition, District officials should review procedures currently used by the District to identify potential instances of non-compliance with these policies. For instance, periodic searches of employee and vendor/contractor addresses could be performed to identify individuals paid by the District who are residing in the same household which would then need further review. This should be done in addition to the initial review currently performed by the District.

Report on Special Investigation of the
Des Moines Independent Community School District
Horticulture and Animal Science Department

Staff

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