IOWA ASSOCIATION OF SCHOOL BOARDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OTHER INFORMATION

YEAR ENDED JUNE 30, 2010

C O N T E N T S

Brooks Lodden P.C.
certified public accountants

Telford A. Lodden, CPA, CFP®, CVA, Shareholder
Bruce W. Hartley, CPA, Shareholder
John E. Lamale, CPA, Shareholder
Brent L. Alexander, CPA, Shareholder

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Directors
Iowa Association of School Boards
Des Moines, Iowa

We have audited the consolidated financial statements of Iowa Association of School Boards (the Association) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 12, 2011, which contained a qualified opinion on those consolidated financial statements.

We were unable to obtain written representations from certain members of management responsible for financial activities of the Association from July 1, 2009 through January 12, 2011, which took place under substantially different management.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the written representations referred to in the preceding paragraph been furnished to us by certain members of management, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Brooks Lodden, P.C.

West Des Moines, Iowa
January 12, 2011

1441 29th Street, Suite 305 • West Des Moines, IA 50266 • Phone: 515.223.7300 • Fax: 515.223.8778

IOWA ASSOCIATION OF SCHOOL BOARDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Direct:		
U.S. Department of Education:		
Fund for the improvement of education-Skills Iowa	**84.215K**	**$ 3,188,861**
Fund for the improvement of education-FIE earmark grant awards	**84.215K**	**179,229**
Total U.S. Department of Education		**$ 3,368,090**

Note 1 - Basis of Presentation - The schedule of expenditures of federal awards includes the federal grant activity of the Iowa Association of School Boards and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations.* Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reporting on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organziation* , wherein certain types of expenditures are not allowed or are limited as to reimbursement.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Iowa Association of School Boards
Des Moines, Iowa

We have audited the consolidated financial statements of the Iowa Association of School Boards (the Association) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 12, 2011, which was qualified as we were unable to obtain written representations from certain members of management for financial activities of the Association from July 1, 2009 through January 12, 2011. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as IASB-2010-01A through IASB-2010-22A to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as IASB-2010-01A through IASB-2010-22A to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items IASB-2010-01A through IASB-2010-07A, IASB-2010-11A, IASB-2010-12A, and IASB-2010-20A through IASB-2010-22A.

We noted certain matters that we reported to management of the Association in a separate letter dated January 12, 2011.

The Association's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Brooks Lodden, P.C.

West Des Moines, Iowa
January 12, 2011

Brooks Lodden P.C.
certified public accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Iowa Association of School Boards
Des Moines, Iowa

Compliance

We have audited the Iowa Association of School Board's (the Association) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Association's major federal program for the year ended June 30, 2010. The Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

We were unable to obtain written representations from certain members of management for financial activities of the Association from July 1, 2009 through January 12, 2011. Except for the effects of such adjustments, if any, as might have been determined to be necessary had the written representations referred to in the preceding sentence, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

As described in item IASB-2010-20A in the accompanying schedule of findings and questioned costs, the Association did not comply with requirements regarding allowable cost and adequate documentation that was applicable to its Fund for the Improvement of Education program. Compliance with such requirements is necessary, in our opinion, for the Association to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Association complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items IASB-2010-21A and IASB-2010-22A.

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Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance exists* when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item IASB-2010-20A to be a material weakness.

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items IASB-2010-21A and IASB-2010-22A to be significant deficiencies.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Association, and federal awarding and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Brooks Lodden, P.C.

West Des Moines, Iowa
January 12, 2011

IOWA ASSOCIATION OF SCHOOL BOARDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2010

PART I: SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses a qualified opinion on the consolidated financial statements of the Iowa Association of School Boards.

2. Significant deficiencies and material weaknesses relating to the audit of the financial statements are reported in the schedule of findings and questioned costs.

3. Instances of noncompliance material to the financial statements of the Iowa Association of School Boards were disclosed during the audit.

4. Significant deficiencies and material weaknesses relating to the audit of the major federal award programs are reported in the schedule of findings and questioned costs.

5. The auditor's report on compliance for U.S. Department of Education Fund for Improvement of Education expresses a qualified opinion.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The programs tested as major programs include U.S. Department of Education Fund for the Improvement of Education, CFDA# 84.215K.

8. The threshold for distinguishing between Type A and B programs was $300,000.

9. Iowa Association of School Boards did not qualify as a low-risk auditee and according to the U.S. Department of Education was put on high-risk, which resulted in the Iowa Association of School Boards being required to submit copies of all documentation to the U.S. Department of Education before any draws can be made on grants.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010

IASB-2010-01A: Compensation:

Due to recent events regarding large increases in executive salaries, the Board should review and formally approve all salaries on behalf of the organization. Prior to July 1, 2009, the Board annually performed a review of the Executive Director and set the Executive Director's salary for the upcoming year using the National School Boards Association (NSBA) salary survey as a guide. The Board then approved the remaining salaries of the organization as a budget line item. Per organizational policy, the Executive Director reviewed individual salaries and made adjustments as deemed necessary.

On September 17, 2009, Margaret Buckton, Lisa Bartusek, and Jen Albers, three long-term employees, who had each worked for the organization for over 10 years, were terminated due to what Maxine Kilcrease (Executive Director) cited as budget cuts. Mrs. Kilcrease stated in a Des Moines Register article "School board association lays off 3 officials, cites budget trouble," dated October 14, 2009, *"The three jobs cut reflected cost-saving efforts, not the women's work. Their departures save up to $400,000, she said."* However, on September 18, 2009, the day after Mrs. Albers was terminated; Randy Lagerblade was hired as a consultant at a rate of $100/hour to replace Mrs. Albers and remained a consultant until October 15, 2009. Mr. Lagerblade became a permanent employee on October 16, 2009. Mr. Lagerblade performed 170.34 hours of service for a total amount paid of $17,034. If Mrs. Albers had been retained as an employee through this time, gross salary paid, including benefits and taxes, would have been approximately $9,450. The use of a consultant cost the organization an additional $7,584, which substantially increased the cost of providing these services during this time period. Mr. Lagerblade's annualized salary of $95,560 was also approximately $14,560 more than what was paid to Mrs. Albers. On an annualized basis, this actually would have cost the organization an additional $104,640.

All three of these individuals were offered a severance package; however, only Lisa Bartusek accepted the severance package. Total amount paid to Lisa Bartusek for the severance agreement was $37,641. On October 26, 2009, Mrs. Kilcrease offered Connie Maxson the position of Director of Member Relations based on 75% of full-time employment for 195 days per year with a daily rate of $550. Total annual salary would equate to $107,250. The equivalent pay for a full-time position using this pay rate would be $143,000. The position of Director of Member Relations was a position similar to that held by Mrs. Bartusek. Mrs. Bartusek's annual salary was $113,091 for a full-time position. Factoring the annualized salary amount of $107,250 and the severance paid to Mrs. Bartusek of $37,641, on an annualized basis, this actually would have cost the organization an additional $144,891.

Margaret Buckton's annual salary was $138,201. Once Mrs. Buckton was terminated, some of her duties were absorbed by Mary Gannon, an attorney for the organization. In the Des Moines Register article dated October 14, 2009, Mrs. Kilcrease stated, *"The women's duties will be absorbed by other employees."* There was no mention about other employees receiving raises to perform these additional services. Effective January 15, 2010, Mary Gannon's salary increased from $96,704 to $125,000, for an increase of $28,296. The net effect of this termination saved the organization $109,905.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-01A: Compensation: *(Continued)*

On September 30, 2009, Maxine Kilcrease's salary was changed from an annualized amount of $210,000 to $367,157, and applied retroactively to July 1, 2009. Mary Delagardelle's salary was changed from an annualized amount of $126,464 to $165,000 on December 15, 2009, and applied retroactively to July 1, 2009; LeGrande Smith's salary was changed from an annualized amount of $144,200 to $165,000, and applied retroactively to July 1, 2009. In addition, Larry Sigel's contract of $100,000 per year to provide school finance services was terminated. Jackie Black was hired on December 15, 2009 to provide school finance services to the school districts at an annualized salary of $125,000, plus benefits. The following table illustrates on an annualized basis the net effect of the termination of certain employees versus the increase in salaries and new hires for individuals replacing the terminated employees/contractors covering the period from July 1, 2009 to June 30, 2010:

	(Decrease)	Increase	Difference
Jen Albers	$ (81,000)	$ -	$ (81,000)
Margaret Buckton	(138,201)	-	(138,201)
Lisa Bartusek	(113,091)	-	(113,091)
Larry Sigel's Contract	(100,000)	-	(100,000)
Maxine Kilcrease	-	157,157	157,157
Mary Delagardelle	-	38,536	38,536
LeGrande Smith	-	20,800	20,800
Mary Gannon	-	28,296	28,296
Randy Lagerblade	-	95,560	95,560
Connie Maxson	-	107,250	107,250
Jackie Black	-	125,000	125,000
Lisa Bartusek's Severance	-	37,641	37,641
Estimated Benefits at 40%	(132,917)	244,096	111,179
Net effect of salary changes	$ (565,209)	$ 854,336	$ 289,127

Based upon the above table, the combined effect of the termination of Jen Albers, Margaret Buckton, Lisa Bartusek and Larry Sigel's contract, the changes made to other employee's salaries and the additional employees hired, increased the annualized cost to the organization by approximately $289,127. Mrs. Kilcrease claimed to have saved the Organization $400,000 in an article in the Des Moines Register and in comments to the Board. The above table only factors in similar positions and increases in executive salaries. It does not factor into consideration other employees who were terminated or left the organization since July 1, 2009.

During our review of compensation for the year ended June 30, 2010, we noted that the Human Resource Director retired on June 30, 2010 and received a severance payment of $12,854.52 on July 15, 2010. In addition, a contribution was made in the amount of $899.82 to his 401(k) account. No agreement was located in the employee's personnel file, nor could any documentation be found that the board approved the payment.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-01A: Compensation: *(Continued)*

Recommendation: The Board should establish formal policies to ensure that the organization complies with the rebuttal presumption requirement of the IRS on highly compensated individuals. The Board should also create a compensation committee comprised of management and certain Board members to review the reasonableness of the salaries of all staff, including independent contractors, of the organization. During the review of the salaries, the committee should take into consideration the NSBA salary survey in addition to other local salary data to determine if the salaries/contracts of employees/ contractors are reasonable. This review should be formally documented in the minutes and noted in each employee/contractor file. The committee should then compile a listing of the employees and independent contractors and the salary amounts determined by the committee to be deemed reasonable and submit this list for review and approval by the entire Board. The Board should designate a Board member to contact the payroll service provider to make any necessary changes. It should also be communicated to the payroll provider that no changes to payroll can occur without the designated Board member's signature for approval.

Response: The IASB Board passed revisions to their Salary and Wages policy at their meeting on April 25, 2010. The policy also indicates that all changes to salary shall be approved by the Board in order to be effective. The Board has established a Compensation Committee. The Compensation Committee will review all salary and severance agreements and make recommendations to the Board to be approved.

The Governance and By-Laws Subcommittees of the Board met on November 19, 2010 to discuss and develop Compensation and Benefits policy recommendations. The Compensation Committee is responsible for evaluating and documenting the reasonableness of salaries for staff and independent contractors. Interim changes to employee salaries will be submitted to the IASB Board for approval in order to be effective. Any salary changes must be submitted in writing, with documentation of IASB Board approval, to the staff member handling payroll before changes can be implemented. Independent contractor agreements will be submitted to the IASB Board for approval.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish a process in which any employee leaving the Organization, whether voluntarily or forced, has an exit interview with a designated committee of Board members, separate from the compensation committee. An exit interview should be performed with the employee to determine if there are any issues or concerns within the organization that need to be addressed by the Board.

Response: IASB Management has worked with IASB's counsel and has established and implemented an exit interview protocol which includes a standard set of exit interview questions. The Board and Management will continue to review procedures related to employee exit protocols.

Auditor's Response: It is important for the Board to understand the necessity of establishing a procedure that does not allow management to be part of the exit interview process. The process should be independent and unbiased so if any issues arise, these are communicated properly to the Board to address.

Recommendation: The Board should establish a formal severance policy, approve all severance payments, and properly document these payments in the board minutes.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-01A: Compensation: *(Continued)*

Response: The Board will discuss and establish a formal severance policy based upon the recommendation of the Compensation Committee. The Compensation Committee will review all severance agreements and properly document these payments in the minutes and the employee's file.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should review the severance agreements to ensure the Board understands what benefits the individuals are being offered and any restrictions the agreements place on the organization and/or the individual(s).

Response: The Board's Compensation Committee will review all severance agreements. Amendments to IASB's By-Laws were formally discussed and edited by the Boards' Compensation and Benefits Subcommittee and the Governance and By-Law Committee at the Board meeting in November 2010. The Compensation Committee will be responsible for evaluating and documenting the reasonableness of salaries for staff and independent contractors. Interim changes to employee salaries will be submitted to the IASB Board for approval in order to be effective. Any salary changes must be submitted in writing with documentation of IASB Board approval to the staff member handling payroll before changes can be implemented. Independent contractor agreements will be submitted to the IASB Board for approval.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

IASB-2010-02A: Maxine Kilcrease's Compensation:

Maxine Kilcrease began as IASB Executive Director on July 1, 2009 with a base salary of $210,000 ($8,750 per pay period) per her intended employment agreement and the 2010 fiscal year board approved budget. During the initial contract negotiations, Mrs. Albers and Mr. Smith had several conversations with Mrs. Kilcrease regarding her salary and benefits and all parties agreed the salary amount to be $210,000. Mrs. Albers correctly communicated to the payroll service provider a per pay period amount of $8,750 for Mrs. Kilcrease's salary. On July 23, 2009, Brooks Lodden, P.C. staff met with Mrs. Kilcrease and Mr. Schick and specifically discussed the IRS requirements regarding excessive compensation, including the possibility of IRS scrutiny, as well as the potential for negative public perception, in addition to the monetary cost that could be associated with dealing with any issues with the IRS and the public. At this time, we also made Mrs. Kilcrease aware that her salary would be disclosed on the 2009 Form 990 informational tax return filed with the IRS. Mrs. Kilcrease stated that was fine because her salary at AEA 11 was public information and that she was "actually underpaid". The correct salary amount was paid to Mrs. Kilcrease for every pay period from July 1, 2009 through September 15, 2009. On September 17, 2009, Mrs. Kilcrease terminated Mrs. Albers, Director of Finance, citing budget cuts.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-02A: Maxine Kilcrease's Compensation: *(Continued)*

On September 23, 2009, Mr. Smith sent an e-mail to Mrs. Kilcrease, Mr. Schick, Mrs. Delagardelle stating, "*Yesterday I told the EC (Executive Council) I would provide the IRS requirements for a tax-exempt organization to establish a presumption of reasonableness of compensation paid under compensation arrangements. Attached is a 1-page memo outlining the IRS requirements for establishing the presumption.*" On September 25, 2009, an e-mail was sent to Kevin Schick from Randy Lagerblade questioning what amounts should be grossed up for Mrs. Kilcrease's salary. Mr. Schick responded to Mr. Lagerblade and copied Mrs. Kilcrease and Jack Hill on the e-mail and directed Mr. Lagerblade to gross up for all deductions. Based upon Mr. Schick's direction, Mr. Lagerblade communicated the change to the payroll service provider. On the September 30, 2009 payroll date, Mrs. Kilcrease's annualized salary was increased from $210,000 to $367,157, in order to gross up her salary for all benefits and withholdings including all taxes so that the net check deposited into her bank account was $8,750. The salary increase was applied retroactively to July 1, 2009, which resulted in an additional gross amount paid to Mrs. Kilcrease of $32,741 for the period July 1, 2009 to September 15, 2009 on September 30, 2009. Based upon subsequent discussions with Mrs. Albers, she stated that Mrs. Kilcrease never contacted her regarding any discrepancy in her pay.

On October 12, 2009, Brooks Lodden, P.C. staff met with Mrs. Kilcrease to inquire of fraud and any other concerns that Mrs. Kilcrease might have regarding the organization and the financial statements. Mrs. Kilcrease did not mention any issues regarding her salary to Brooks Lodden, P.C. On December 5, 2009, Mrs. Kilcrease sent an e-mail to Mr. Lagerblade requesting the amount of money owed to the organization from her due to incorrect paychecks. On January 5, 2010, Mrs. Kilcrease wrote a memo to Mr. Schick, Mr. Lagerblade, and Mr. Smith stating, "*My interpretation of my compensation is not that everything should be grossed up. My interpretation is that the association would be paying for flex cost, administrative fees, and all Social Security costs and related costs even though Jen's document does clearly say "Payroll Taxes." Thus I believe that my compensation has been too much. I have set aside the money which I believe is overpayment and stand ready to return that to the IASB at any time. It seems important to me to go on record so that there is clarity regarding this issue*." Based upon our review of the spreadsheet prepared by Mrs. Albers, the spreadsheet clearly indicates the amounts are total costs the employer pays on behalf of the employee. It does not state employee payroll taxes or employee's flex cost associated with the employee's salary would be paid by the organization.

On January 11, 2010, Brooks Lodden, P.C. sent a formal letter to Mrs. Kilcrease trying to clarify some of her responses from the October 12, 2009 meeting. A formal letter dated January 22, 2010, was received by Brooks Lodden, P.C. from Mrs. Kilcrease in response to our letter dated January 11, 2010, and again, Mrs. Kilcrease did not mention any issues regarding her payroll to Brooks Lodden, P.C.

On February 13, 2010, Brooks Lodden, P.C. became aware of Mrs. Kilcrease's salary increase. On February 14, 2010, Brooks Lodden, P.C. was also contacted by a Board member questioning whether an Executive Director can withhold salary information from the Board. Brooks Lodden, P.C. instructed the Board member that in order to comply with IRS regulations related to filing the Form 990 informational tax return, Board members should know what the salaries are to ensure the salaries are properly disclosed on the return.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-02A: Maxine Kilcrease's Compensation: *(Continued)*

On February 16, 2010, a whistleblower complaint was filed by an anonymous individual stating, "*Dr. Kilcrease raised an issue of her salary to Jack Hill stating that she negotiated that her salary would be $2xx,xxx net of taxes not gross as she was being paid or that it was her understanding that nothing was to be taken out of her check. Mr. Hill advised Dr. Schick and the Controller, Randy Lagerblade to fix the problem. This change greatly increased the total compensation for the Executive Director. The board should be aware of the full compensation amount. Dr. Kilcrease in the late fall increased the salaries of LeGrande Smith and Mary Delagardelle to $165,000 and made it retroactive to July 1, 2009. Dr. Kilcrease also changed the insurance coverage for herself, LeGrande Smith and Mary Delagardelle from individual to family which also increases compensation. The board should be fully aware of the salary cost of the executives.*"

On February 17, 2010, the Executive Board members had a conference call with Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith, and J. Campbell Helton from Whitfield & Eddy, P.L.C. regarding the February 16, 2010 complaint. Based upon conversations with a board member, when the complaint was being reviewed and the salary issue was discussed, Mrs. Kilcrease allegedly stated that the increases were "*Preposterous*". Furthermore, per the board member, Mrs. Delagardelle and Mr. Smith who were also on the call did not disclose to the Executive Board members that their salaries had increased as the whistleblower complaint claimed. Mrs. Kilcrease, Mr. Smith, and Mr. Helton recommended that the Board not review this complaint as it was filed by a disgruntled individual. A Board member made a comment that it would be a good idea to have another attorney look at the complaint since Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith and Mr. Helton were all named in the complaint. The Board was told that it would cost too much and would not be worth investigating. The Executive Board members agreed that if anything was found to be true in the audit that verified any information in the complaint, that the complaint would be investigated at a later date.

Brooks Lodden, P.C. continued to work with an IASB employee to see if this individual could provide enough information to take to the Board. The individual did not have access to payroll, but did have access to the benefits system in which salary information is used to calculate life insurance. The individual ran a report showing salary increases for Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith, and Ms. Gannon. On March 1, 2010, the individual faxed Brooks Lodden, P.C. a report showing original salary and current salary. On March 2, 2010, this report was given to the Board President to review. On March 3, 2010, Brooks Lodden, P.C. met with the Board President and discussed concerns regarding the payroll increases in addition to problems we were encountering while performing the audit. At this time, the Board President contacted Mr. Lagerblade and instructed him to give Brooks Lodden, P.C. access to the payroll information. On March 3, 2010 Brooks Lodden, P.C. determined that Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith, and Ms. Gannon had substantial increases in their salaries. This information along with supporting documentation was provided to the Executive Board members on March 3, 2010, and to the entire board on March 10, 2010. Once the Board became aware of Mrs. Kilcrease's increased salary, the Board voted to reduce the Executive Director's salary to her original intended salary of $210,000, effective March 15, 2010. Effective April 2, 2010, the Board terminated Mrs. Kilcrease.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-02A: Maxine Kilcrease's Compensation: *(Continued)*

Brooks Lodden, P.C. obtained the 2010 NSBA annual salary survey which is a yearly survey compiled by NSBA and distributed to all state school board associations to determine if the salaries paid to individuals are reasonable. The salary information on this survey is based upon salaries as of January 1, 2010. The first line on the survey filled out by IASB shows Mrs. Kilcrease's annual salary to be $367,156. As part of this survey, IASB is required to verify the responses on the survey by having the Executive Director sign the survey. Based upon our review of the survey, it appears that Mrs. Kilcrease signed this survey verifying the information in the survey showing an annualized salary of $367,156. This survey was sent to NSBA on January 22, 2010, and the information in this survey was originally included in the 2010 NSBA salary survey received by Brooks Lodden, P.C. in April 2010, as well as all other state board associations. It showed that Mrs. Kilcrease's salary of $367,156 was the highest paid salary of all state school board associations in the nation.

Based upon our review, it appears there are two contracts related to Mrs. Kilcrease's compensation. It appears as though one contract was signed by her twice, as Executive Director signing for the organization and signing for herself, without any signature from a Board member. The other contract appears to be signed by Mrs. Kilcrease, and what appears to be Jack Hill's (Board President through December 31, 2009) signature. Neither contract is dated nor is there any designation on the contract showing that each page was initialed.

Based upon the original intended salary of $210,000 and as illustrated in the below table, Mrs. Kilcrease appears to have been overpaid by $111,579.46 for the period July 1, 2009 to February 28, 2010, which includes salary, and other amounts paid on her behalf by the employer (Employer's portion of 401(k), Social Security, and Medicare contributions). We also noted one mileage reimbursement in which the mileage appears incorrect increasing the amount overpaid to Mrs. Kilcrease by $126.92. The overpayment of salary to Mrs. Kilcrease would appear to be classified as a loan to Mrs. Kilcrease and would be required to be paid back to the organization. This loan would then appear to violate Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan.

The following table details the overage on salary, 401(k), and taxes Mrs. Kilcrease received in excess of what should have been paid to her for the period July 1, 2009 to February 28, 2010.

Salary overage	**$101,947.03**
Employer 401(k) overage	**1,833.48**
Employer OASDI overage	**6,320.72**
Employer Medicare overage	**1,478.23**
Subtotal	**$111,579.46**
Amount repaid by Mrs. Kilcrease on 3/3/2010	**(59,192.84)**
Incorrect mileage reimbursement	**126.92**
Total due to IASB	**$ 52,513.54**

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-02A: Maxine Kilcrease's Compensation: *(Continued)*

On October 26, 2009, Mrs. Kilcrease personally purchased chairs on the corporate credit card totaling $1,575.20. This amount was not reimbursed to the organization until December 3, 2009. In addition, from review of Mrs. Kilcrease's corporate credit card statements, we also noted that several expenses did not have adequate documentation and/or credit card receipts did not always have the detailed receipt present. On July 2, 2009, Mrs. Kilcrease signed a corporate credit card usage agreement which stated that corporate credit cards are not to be used for purchases of a personal nature, cash advances, or to circumvent compliance with normal expense requisition methods. The charge for $1,575.20 appears to be in violation of the credit card usage agreement which she signed and may have violated Section 504.834 of the Iowa Code.

It was the organization's policy to allow the Executive Director and Board members to take their spouses on out-of-town travel events. Mrs. Kilcrease took her spouse on occasion to these events; however, the amounts incurred by the organization on behalf of her spouse were not reflected in Mrs. Kilcrease's W-2 compensation. Total amount of compensation that should have been added to Mrs. Kilcrease's W-2 compensation for this issue was $1,029.90.

Recommendation: Since the Board determined the intended salary of $210,000 was the appropriate compensation for Mrs. Kilcrease's position, we recommend the Board take steps to require Mrs. Kilcrease to pay the remaining balance due to the organization in the amount of $52,513.54, plus applicable interest. In addition, the $111,579.46 should be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990.

Response: Legal Counsel for the IASB Board has requested Mrs. Kilcrease pay the remaining balance due to the organization. The remaining amount outstanding has not yet been paid to the organization. Mrs. Kilcrease's compensation will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Response: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: All employment related contracts should be signed by an authorized representative of the Board and each page should be initialed by both the organization and the individual signing the contract to ensure the contract is maintained in its entirety. The personnel files and contracts should be secured and access limited so that information cannot be removed from the files. This will mitigate the likelihood of unauthorized changes being made to the files without formal approval and missing documentation from personnel files.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-02A: Maxine Kilcrease's Compensation: *(Continued)*

Response: All contracts will be signed by an authorized representative of the Board and one original will be retained in the employee's personnel file and a second original will be provided to the employee. Personnel files and employment letters will be secured and access limited to the IASB Human Resources Director. When documents are removed from personnel files, a notation of what was removed will be maintained in the file until the original document is replaced.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish procedures to ensure that any amounts such as spousal travel paid by the organization on behalf of an individual is properly reflected in a W-2 as compensation. In addition, we recommend that the W-2 and W-3 be amended to reflect the additional compensation to Mrs. Kilcrease for spousal travel.

Response: The IASB Board passed an updated Travel Expense policy at their meeting on April 25, 2010, eliminating payment by the organization for spousal travel.

Auditor's Response: Brooks Lodden, P.C. concurs with the change in policy, however, the organization is responsible to ensure that compensation is properly reported to the IRS. We continue to recommend that the W-2 and W-3 be amended and resubmitted.

Recommendation: The Board should remove credit cards from all employees and only retain a corporate card to be used for necessary business expenses of the organization. Procedures should be established to include an authorization process in which transactions are approved on the credit card. A form should be prepared and maintained documenting the approval and the business purpose of the transaction. Itemized receipts should be obtained to support all charges on the credit card and given to the accounting department to include as support for the credit card transactions.

Response: The IASB Board passed revisions to the Credit Card policy at their meeting on April 25, 2010. Corporate credit cards may only be used for business expenses, charges require an itemized receipt, and any personal or unauthorized charges require reimbursement from the employee within ten working days. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-03A: Mary Delagardelle's Compensation:

Mary Delagardelle was the Deputy Executive Director of IASB and Executive Director of Iowa School Boards Foundation (ISBF) prior to the employment of Maxine Kilcrease as IASB Executive Director. Her status under Mrs. Kilcrease remained unchanged from the previous administration. Mrs. Delagardelle's annual compensation per the 2010 fiscal year budget was $126,464. On November 12, 2009, Mrs. Kilcrease approved a salary increase of $38,536 for an annualized salary of $165,000 for the Deputy Executive Director, which took effect on December 15, 2009, and was retroactively applied to July 1, 2009. Approximately one week later at the November 20, 2009 board meeting, Mrs. Kilcrease stated the following, "*It is likely we will need to cut personnel to manage finances.*" According to the minutes, Mrs. Delagardelle was in attendance at this meeting. The total retroactive amount included in the December 15, 2009 payroll for Mrs. Delagardelle was $16,050. Mrs. Kilcrease also provided certain benefits to Mrs. Delagardelle and LeGrande Smith, including short-term disability and full family health insurance benefits. These benefits were only provided to members of Mrs. Kilcrease's Executive Council. *Organizational policy #203.1R10 states that the IASB Board of Directors, upon recommendation of the Executive Director, shall provide benefits to IASB staff members and regular part-time employees working 20 or more hours weekly. The IASB Board of Directors shall determine the carrier for all insurance/pension programs. Benefits will be reviewed annually*. By offering Mrs. Delagardelle short-term disability and full family benefits, Mrs. Kilcrease appears to have violated the organization's internal policy regarding employee benefits. Once the Board became aware of the increase in Mrs. Delagardelle's salary, the Board voted to reduce the salary to her July 1, 2009 salary approved in the budget, effective March 15, 2010.

Based upon the original intended salary of $126,464, Mrs. Delagardelle appears to have been overpaid by $29,854.26 which includes salary, and amounts paid by the employer (Employer's portion of 401(k), Social Security, and Medicare contributions). The budgeted salary of $126,464 was determined to be reasonable by Ron Rice, the prior Executive Director for the 09-10 budget. There is no additional documentation by Mrs. Kilcrease regarding the additional duties Mrs. Delagardelle would be performing to justify the salary increase. The overpayment of salary to Mrs. Delagardelle would appear to be classified as a loan to Mrs. Delagardelle and would be required to be repaid to the organization. This loan would then appear to violate Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan.

The following table details the overage on salary, 401(k), and taxes Mrs. Delagardelle received in excess of what should have been paid to her for the period July 1, 2009 to March 15, 2010:

Salary overage	**$ 26,039.48**
Employer 401(k) overage	**1,822.76**
Employer OASDI overage	**1,614.45**
Employer Medicare overage	**377.57**
Total due to IASB	**$ 29,854.26**

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-03A: Mary Delagardelle's Compensation: *(Continued)*

A memo dated November 12, 2009 from Mrs. Kilcrease to the employee's file regarding her analysis of the salary increase for Mrs. Delagardelle stated the increase was approved by both the Executive Director and Chief Financial Officer. Randy Lagerblade, Controller, also stated that both Mr. Schick and Mr. Smith came into his office and displayed on his whiteboard how the salaries of both Mary Delagardelle and LeGrande Smith were going to change prior to the amounts being paid on December 15, 2009. On January 11, 2010, Brooks Lodden, P.C. met with Mrs. Delagardelle to perform additional fraud inquires. During this meeting, Mrs. Delagardelle did not provide any information regarding any issues with salaries during these inquiries. Also, based upon the discussion under finding IASB-2010-02A, Mrs. Delagardelle did not disclose to the Executive Board that her salary had been increased to $165,000.

Mrs. Delagardelle appears to have used the credit card issued to her by the organization on several occasions throughout the year for personal use in addition to charging other costs to the organization. Total amount of personal charges incurred by Mrs. Delagardelle were $1,219.05. Personal charges were reimbursed to the organization at various times during the year. Mrs. Delagardelle also signed a corporate credit card usage agreement which stated that corporate credit cards are not to be used for purchases of a personal nature, cash advances, or to circumvent compliance with normal expense requisition methods. These charges appear to be in violation of the credit card usage agreement which she signed. These charges may have violated Section 504.834 of the Iowa Code.

Recommendation: The Board should require Mrs. Delagardelle to pay the balance due to the organization in the amount of $29,854.26 plus applicable interest. The $29,854.26 should be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990.

Response: Legal Counsel for the IASB Board has requested Mrs. Delagardelle pay the remaining balance due to the organization. On the advice of Mrs. Delagardelle's counsel, she has chosen not to pay the remaining balance. Mrs. Delagardelle's compensation will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should report Mrs. Kilcrease, Mr. Schick and Mr. Smith to the IRS on the appropriate form(s) in accordance with IRS regulations as the managers approving the excess benefit transaction and filed with the 2009 Form 990.

Response: Mrs. Kilcrease, Mr. Schick and Mr. Smith will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should amend the benefits policy to include wording that does not allow benefits to accrue only to selected employees and ensure employee benefits can only be changed by the Board. All benefits offered by the organization should be discussed by the compensation committee and brought before the Board for approval.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-03A: Mary Delagardelle's Compensation: *(Continued)*

Response: The Board has established a Compensation and Benefits Subcommittee. The Compensation Committee will review all benefits. The Governance and By-Laws Subcommittee of the Board met on November 19, 2010 to discuss and develop Compensation and Benefits policy recommendations. Benefits available to employees will be approved by the Board's Compensation Committee and presented to the Board for approval.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Response: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation.

Auditor's Response: Brooks Lodden, P.C. concurs with the policy adopted.

Recommendation: The Board should remove credit cards from all employees and only retain a corporate card to be used for necessary business expenses of the organization. Procedures should be established to include an authorization process in which transactions are approved on the credit card. A form should be prepared and maintained documenting the approval and the business purpose of the transaction. Itemized receipts should be obtained to support the charges on the credit card and given to the accounting department to include as support for the credit card transactions.

Response: The IASB Board passed revisions to the Credit Card policy at their meeting on April 25, 2010. Corporate credit cards may only be used for business expenses, charges require an itemized receipt, and any personal or unauthorized charges require reimbursement from the employee within ten working days. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-04A: LeGrande Smith's Compensation:

LeGrande Smith was the General Counsel prior to the employment of Maxine Kilcrease as IASB Executive Director. Mr. Smith's annual compensation per the fiscal year 2010 budget was approximately $144,200. On November 12, 2009, Mrs. Kilcrease approved a salary increase of approximately $20,800 for an annualized salary of $165,000 for Mr. Smith, which took effect on December 15, 2009 and was retroactively applied to July 1, 2009. Approximately one week later at the November 20, 2009 board meeting, Mrs. Kilcrease stated the following, *"It is likely we will need to cut personnel to manage finances."* According to the minutes, Mr. Smith was in attendance at this meeting. The total retroactive amount included in the December 15, 2009 payroll for Mr. Smith was $8,717. The overpayment of salary to Mr. Smith would appear to be classified as a loan to Mr. Smith and would be required to be paid back to the organization. This loan would then appear to violate Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan. Once the Board became aware of the increase in Mr. Smith's salary, the Board voted to reduce the salary to his July 1, 2009 salary approved in the budget, effective March 15, 2010.

The following table details the overage on salary, 401(k), and taxes Mr. Smith received in excess of what should have been paid to him for the period July 1, 2009 to March 15, 2010:

Salary overage	**$ 13,294.21**
Employer 401(k) overage	**930.59**
Employer OASDI overage	**824.24**
Employer Medicare overage	**192.77**
Subtotal	**$ 15,241.81**
Amount repaid by Mr. Smith on 6/15/2010	**(9,000.00)**
Interest	**70.88**
Amount repaid by Mr. Smith on 8/06/2010	**(6,312.69)**
Total owed to IASB	**$ -0-**

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-04A: LeGrande Smith's Compensation: *(Continued)*

A memo dated November 12, 2009 from Mrs. Kilcrease to the employee's file regarding her analysis of the increase in salary of Mr. Smith stated the increase in salary was approved by the Executive Director, Chief Financial Officer, and Deputy Executive Director. Mr. Lagerblade also stated that both Mr. Schick and Mr. Smith came into his office and displayed on his whiteboard how the salaries of both Mrs. Delagardelle and Mr. Smith were going to change prior to the amounts being paid on December 15, 2009. Mrs. Kilcrease also provided special benefits to Mrs. Delagardelle and Mr. Smith, including short-term disability and full family health insurance benefits. These benefits were only provided to members of Mrs. Kilcrease's Executive Council. *Organizational policy #203.1R10 states that the IASB Board of Directors, upon recommendation of the Executive Director, shall provide benefits to IASB staff members and regular part-time employees working 20 or more hours weekly. The IASB Board of Directors shall determine the carrier for all insurance/pension programs. Benefits will be reviewed annually*. By offering Mr. Smith short-term disability and full family benefits, Mrs. Kilcrease appears to have violated the organization's internal policy regarding employee benefits. Mrs. Kilcrease advised Mr. Smith that he was covered by a short term disability policy when no such coverage had been secured. In the opinion of outside legal counsel, this commitment resulted in some legal exposure to the Association. The costs incurred by the Association for this benefit was $20,155. The amount was not documented in the Board minutes as being approved by the Board. On January 13, 2010, Brooks Lodden, P.C. met with Mr. Smith to perform additional fraud inquires. During this meeting, Mr. Smith did not provide any information regarding any issues with salaries during these inquires. Also, based upon the discussion under finding IASB-2010-02A, Mr. Smith did not disclose to the Executive Board that his salary had been increased to $165,000. In June 2009, Brooks Lodden, P.C. staff met with LeGrande Smith and specifically discussed the IRS requirements on excessive compensation, including the possibility of IRS scrutiny. Furthermore, we discussed the potential for negative public perception in addition to the monetary cost that could be associated with dealing with any issues in regards to the IRS and the public.

Recommendation: The $15,241.81 original overage should be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990. In addition, we recommend the Board review the additional amounts paid to Mr. Smith to determine the proper treatment and reporting requirements to comply with IRS regulations and the 2009 Form 990.

Response: Mr. Smith repaid $9,000 as of June 15, 2010 and the remaining balance plus interest in the amount of $6,318.69 on August 6, 2010. Mr. Smith's compensation will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. In addition, the Board will review the additional amounts paid to Mr. Smith to determine the proper reporting treatment for the 2009 Form 990.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-04A: LeGrande Smith's Compensation: *(Continued)*

Recommendation: The Board should report Mrs. Kilcrease, Mr. Schick, Mrs. Delagardelle and Mr. Smith to the IRS on the appropriate form(s) in accordance with IRS regulations as the managers approving the excess benefit transaction and file with the 2009 Form 990.

Response: Mrs. Kilcrease, Mr. Schick, Mrs. Delagardelle, and Mr. Smith will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should amend the benefits policy to include wording that does not allow benefits to accrue only to selected employees and ensure employee benefits can only be changed by the Board. All benefits offered by the organization should be discussed by the compensation committee and brought before the Board for approval.

Response: The Board has established a Compensation and Benefits Subcommittee. The Compensation Committee will review all benefits. The Governance and By-Laws Subcommittee of the Board met on November 19, 2010 to discuss and develop Compensation and Benefits policy recommendations. Benefits available to employees will be approved by the Board's Compensation Committee and presented to the Board for approval.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Response: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-05A: Mary Gannon's Compensation:

Mary Gannon serves as an attorney for the organization. Ms. Gannon's annual compensation per the FY 2010 budget was approximately $96,704. On September 17, 2009, the department head of the legislative and lobbying department for the organization was terminated by Mrs. Kilcrease. Some of these duties performed by this individual along with some of the duties performed by Mrs. Bartusek were absorbed by Ms. Gannon. On January 15, 2010, the Executive Director approved a salary increase of $28,296 for an annualized salary of $125,000. The salary increase was effective starting with the January 15, 2010 pay period. Once the Board became aware of the increase in Ms. Gannon's salary, the Board voted to reduce the salary to her July 1, 2009 salary approved in the budget, effective March 15, 2010.

Ms. Gannon's salary was initially based upon the $7.5 million and above category in the *Survey of Salaries and Benefits Provided by State School Boards Associations 2009*. Comparing the initial salary of $96,704 that was approved in the 09-10 budget to the 2009 survey, we found the salary amount of $96,704 was between the median and low categories and was within an acceptable level of compensation. According to the 2010 survey, the $96,704 would be in between the highest and median categories and within an acceptable level of compensation. Compared to the 2010 survey, a salary of $125,000 would also fall between the high and median categories and would be within an acceptable level of compensation.

Recommendation: No additional action is necessary at this time on this individual. The Board voted to reduce the salary to the fiscal year 09-10 budgeted amount. Even with the increase to $125,000, this was still an acceptable level of compensation for the duties being performed by this individual. Even though the salary range was within acceptable limits, we would recommend the Board establish procedures to ensure that additional duties taken on by an individual are properly reviewed and documented to support any increases an individual receives. This information should also be documented in the employee's file.

Response: The IASB Board reduced Ms. Gannon's salary to the July 1, 2009 level effective March 31, 2010. Any salary increases to this position would require board approval under the revised Salary and Wages policy.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

Finding IASB-2010-06A: Connie Maxson's Compensation:

Connie Maxson began working for the organization as the Director of Member Relations with an annual salary of $107,250 on January 1, 2010. According to a letter of offer by the Executive Director, the position offered was 75% of a full-time position.

The Director of Member Relation's salary was initially based upon the *Survey of Salaries and Benefits Provided by State School Boards Associations 2009.* Comparing the initial salary of $107,250 to the 2009 survey, we found the salary amount of $107,250 exceeded the high category for a full-time position in the nation. According to the 2010 survey, the $107,250 would be in between the highest and average categories, but closer to the high end of the survey. Taking into consideration the budget classification in the 2010 survey for the organization, it is unlikely that the salary should be on the high end of the salary category, since the comparables used are based upon similar organizations around the nation and the high category would more than likely include larger states, such as California, Texas, and New York. In addition, both the 2009 and 2010 salary surveys were based upon full-time positions. Currently, the Director of Member Relations is only working 75%. Based upon the reduced amount of time spent in the position, it would appear that 25% of the amount paid to the Director of Member Relations does not fall within the industry standards.

Additional compensation paid:

We noted that a severance payment in the amount of $3,093.75 was paid on July 15, 2010. In addition a contribution of $226.88 was made to the 401(k) plan on behalf of Mrs. Maxson. According to the plan document, an employee can only enter the plan the first day of the month after the employee has six months of service with the organization. Based upon employment records, Mrs. Maxson started employment on January 1, 2010 and was terminated on June 30, 2010. The first day that Mrs. Maxson could enter the plan would have been on July 1, 2010. No agreement was located in the employee's personnel file, nor could any documentation be found that the Board approved the payment.

Recommendation: The Board should review this position to determine if the *full-time* salary amount is appropriate. If the amount is deemed to be appropriate for the position on a *full-time basis*, the Board should immediately reduce the total salary amount paid to the individual to account for the *part-time* status of the employee.

Response: The IASB Board evaluated and eliminated this position effective June 30, 2010.

Auditor's Response: Although the position has been eliminated the organization should still establish procedures to ensure the compensation paid to an individual is appropriate.

Recommendation: The Board should establish a formal severance policy, approve all severance payments, and properly document these payments in the board minutes. In addition, the Board should establish procedures to comply with the organization's 401(k) plan.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

Response: The Board's Compensation Committee will review all severance agreements. Amendments to IASB's By-Laws were formally discussed and edited by the Boards' Compensation and Benefits Subcommittee and the Governance and By-Law Committee at the Annual Meeting during November 2010. The Compensation Committee will be responsible for evaluating and documenting the reasonableness of severance payments. Severance payments will be submitted to the IASB Board for approval in order to be effective. IASB will contact the pension plan administrator to correct the contribution and IASB will notify Connie Maxson of the correction.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Finding IASB-2010-07A: Jackie Black's Compensation:

Jackie Black began working for the organization as the Director of School Finance with an annual salary of $125,000. The Director of School Finance's salary was initially based upon the *Survey of Salaries and Benefits Provided by State School Boards Associations 2009*. Comparing the initial salary of $125,000 to the 2009 survey, we found the salary amount of $125,000 exceeded the high category for a full-time position. Based upon the review of the organization's payroll reports, it was determined that this amount was related to the organization's own employee for the 2009 data. The 2010 survey did not include any individual in the "Other-School Finance" category; however, if the Director of School Finance would have been included on the survey, the amount would have shown $125,000. Brooks Lodden, P.C. called NSBA and explained the position of Director of School Finance; however, NSBA was unaware of any position in the survey which matched the job description of the Director of School Finance. The prior Director of School Finance's duties also included presenting the organization's Convention "School Finance Boot Camp," the Iowa Superintendents Finance and Leadership Consortium (ISFLC) workshops, and the organization's annual fiscal conference. Based upon our review of the current job description for the Director of School Finance, the description has specifically excluded the above duties from the responsibility of the current Director of School Finance. It would appear the current rate paid to the Director of School Finance is on the high end for duties to be performed when compared to the prior Director of School Finance.

Recommendation: The Board should review the duties performed by the prior Director of School Finance and compare these duties to the job description and duties performed by the current Director of School Finance. Based upon this review, the Board should estimate the time required for the additional duties performed, if any, and adjust the compensation level accordingly.

Response: The Board has established a Compensation Subcommittee and the Board has reviewed the responsibilities of this position. Staff salaries were discussed at the November 19, 2010 Board meeting with salary recommendations to be made at the January Board meeting.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-08A: Contracted Services:

Kevin Schick began as interim CFO on April 13, 2009 for IASB. He was an independent contractor hired through a placement agency at rate of $115/hour from April 13 through October 31, 2009. The annual amount at $115/hour would approximate $239,200 based upon a 2,080 hour work year. The total amount paid for contracted CFO services was $114,598 for 996.50 hours of work. In addition to this amount, another individual also billed for 97 hours @ $115/ hour for a total of $11,155. Brooks Lodden, P.C. obtained the invoices and noted there was no detail on the invoices for the amount charged to the organization. The attorneys for IASB requested the backup supporting the invoices, but the only information provided to the attorneys was a timesheet by day that only listed the total number of hours. No detail of the work performed by these individuals could be provided for our review.

Recommendation: The Board should request from these individuals a detailed account of the duties they performed for IASB and LGS while in the service of the placement agency. This information is necessary to determine whether or not the amount charged for services to the organization are excessive. If the information is received, the Board should review the detail to determine if the description is reasonable for the services which were rendered. If the information is not received, the Board should request a refund of the amounts that cannot be substantiated in detail and report this amount to IRS on the appropriate form(s) in accordance with IRS regulations as an excess benefit transaction and file with the 2009 Form 990.

Response: The IASB Board has requested and outside counsel prepared a letter requesting a detailed account of the duties performed for IASB and LGS. No additional information has been received; the amounts will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish policies in which independent contractor agreements are reviewed by the compensation committee to determine if the compensation is reasonable for the service being provided to the organization. These contracts should then be submitted to the Board to approve and be documented in the minutes as well as retained in the contractor's file.

Response: The Board has established a Compensation and Benefits Subcommittee. The Compensation Committee will review all independent contractor agreements. The Governance and By-Laws Subcommittee of the Board met on November 19, 2010 to discuss and develop Compensation and Benefits policy recommendations.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-09A: KSL Consulting, LLC Contracted Services

On November 1, 2009, Kevin Schick began using his own company, KSL Consulting, LLC, and charged the organization for services at a gross rate of $450/hour "discounted" via an amount "contributed" to a net of $100/hour. The annual amount at $100/hour would be $208,000 based upon a 2,080 hour work year. The total amount paid for contracted CFO services through KSL Consulting, LLC was $41,600 (416 hours @ $100/hr). No signed contract between the organization and KSL Consulting, LLC regarding the duties and responsibilities that Mr. Schick was to perform for the organization could be located for Brooks Lodden, P.C. to review, nor was approval of the contract noted in the board minutes. In addition, based upon our review of the invoices from KSL Consulting, LLC, there is no itemized accounting regarding the number of hours per day and services provided to the organization.

According to IASB credit card statements, Mr. Schick's departure date for his vacation to Bora Bora was December 27, 2009 with a return date of January 3, 2010. For the period December 28-31, 2009, Mr. Schick billed IASB for 8 hours of work. This invoice was approved by Mrs. Kilcrease. On June 3, 2010, Mr. Schick testified before the Iowa Legislative Oversight Committee that his vacation to Bora Bora was personal in nature and he did not bill any amounts to the organization during his vacation. The total net amount using a rate of $100/hour would be an overbilling of $800 to IASB. Mr. Schick also billed for 40 hours of service between January 1-9, 2010. Without the individual detail on the services Mr. Schick provided to the organization during this time, it cannot be determined at this time whether or not additional repayment is necessary.

Mr. Schick has presented himself as an independent contractor; however, his responsibilities and duties mirror the activities of an employee rather than an independent contractor. Mr. Schick was given the title of Chief Financial Officer, included on the Executive Council, given signature authority on all bank accounts, given access to the accounting system, given a corporate credit card, elected to be President of Local Government Services on September 16, 2009, and made management decisions without approval from the Executive Director or the Board. All of these duties were similar to duties performed by the prior CFO, who was classified as an employee.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-09A: KSL Consulting, LLC Contracted Services *(Continued)*

The following table shows the detail of the charges invoiced and paid to KSL Consulting, LLC:

Billing Period:	Hours	Rate	Amount
November 1-7, 2009	40 hours	$100/hr	$ 4,000
November 8-14, 2009	40 hours	$100/hr	4,000
Total for invoice #1134	80 hours		$ 8,000
November 15-21, 2009	40 hours	$450/hr	$ 18,000
November 22-28, 2009	32 hours	$450/hr	14,400
Donation (Effective rate $100/hr)	72 hours	$350/hr	(25,200)
Total for invoice #1137	72 hours		$ 7,200
November 29-December 6, 2009	32 hours	$450/hr	$ 14,400
December 7-13, 2009	40 hours	$450/hr	18,000
Donation (Effective rate $100/hr)	72 hours	$350/hr	(25,200)
Total for invoice #1139	72 hours		$ 7,200
December 14-20, 2009	40 hours	$450/hr	$ 18,000
December 21-27, 2009	24 hours	$450/hr	10,800
Donation (Effective rate $100/hr)	64 hours	$350/hr	(22,400)
Total for invoice #1147	64 hours		$ 6,400
December 28-31, 2009	8 hours	$450/hr	$ 3,600
January 1-9, 2010	40 hours	$450/hr	18,000
January 10-21, 2010	80 hours	$450/hr	36,000
Donation (Effective rate $100/hr)	128 hours	$350/hr	(44,800)
Total for invoice #1305	128 hours		$ 12,800
Grand Total	416 hours	$100/hr	$ 41,600

Recommendation: The Board should request from Mr. Schick a detailed account of the duties he performed for the organization. This information is necessary to determine whether or not the compensation paid for services provided to the organization is excessive. If the information is received, the Board should review the detail to determine if the description is reasonable for the services which were rendered. If the information is not received, the Board should request a refund of the amounts that cannot be substantiated in detail and report this amount to the IRS on the appropriate form(s) in accordance with IRS regulations as an excess benefit transaction and file with the 2009 Form 990.

Response: A letter was sent by outside counsel requesting a detailed account of the duties Mr. Schick performed for the organization. No information has been provided by Mr. Schick. The amounts will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-09A: KSL Consulting, LLC Contracted Services *(Continued)*

Recommendation: The Board should establish policies in which independent contractor agreements are reviewed by the compensation committee to determine if the compensation is reasonable for the service being provided to the organization. These contracts should then be submitted to the Board to approve and be documented in the minutes as well as retained in the contractor's file.

Response: The Board has established a Compensation and Benefits Subcommittee. The Compensation Committee will review all independent contractor agreements. The Governance and By-Laws Subcommittee of the Board met on November 19, 2010 to discuss and develop Compensation and Benefits policy recommendations.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should request Mr. Schick pay the organization $800 for the overbilling on time billed to the organization between the dates December 28-31, 2009, and any other amounts, as identified, after review of detail provided by Mr. Schick.

Response: A letter requesting a refund of $800 was sent to Mr. Schick, however, no payment has been received by the organization. The amount will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish procedures to evaluate the classification of independent contractors to determine whether or not the contractors should be classified as an employee versus an independent contractor. This determination should also be retained and documented in the contractor's file.

Response: The Board will request their outside counsel develop general guidelines to use when determining independent contractor classification. These guidelines will be used to review the classification of independent contractors to ensure they are properly classified as independent contractors prior to presenting them with a formal agreement. This determination will be documented and retained along with the independent contractor agreement in the contractor's file.

Auditor's Response: Several independent contractor's agreements have been approved subsequent to June 30, 2010, however, there does not appear an analysis was performed and documented on these individuals to determine if they properly fell into the independent contractor classification and we recommend the Board ensure this process is implemented.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 ***(Continued)***

IASB-2010-10A: Randy Lagerblade Contracted Services

On September 18, 2009, Randy Lagerblade was contracted to provide interim financial services to the organization. Mr. Lagerblade provided these services from September 18, 2009 thru October 15, 2009 until he became an employee of the organization on October 16, 2009. Mr. Lagerblade charged the organization $17,034 (170.34 hours @ $100/hr). No signed contract between the organization and Mr. Lagerblade regarding the duties and responsibilities that Mr. Lagerblade was to perform for the organization could be located for Brooks Lodden, P.C. to review, nor was approval of the contract noted in the board minutes. In addition, based upon our review of the invoices submitted for payment, there is no itemized accounting regarding the number of hours per day and services provided to the organization.

Recommendation: The Board should request from Mr. Lagerblade a detailed account of the duties he performed for the organization. This information is necessary to determine whether or not the compensation paid for services provided to the organization is excessive. If the information is received, the Board should review the detail to determine if the description is reasonable for the services which were rendered. If the information is not received, the Board should request a refund of the amounts that cannot be substantiated in detail and report this amount to the IRS on the appropriate form(s) in accordance with IRS regulations as an excess benefit transaction and file with the 2009 Form 990.

Response: The IASB Board requested and outside counsel has prepared a letter requesting a detailed account of the duties Mr. Lagerblade performed for the organization. A detailed accounting of the hours along with descriptions of the services provided by Mr. Lagerblade have been provided to the organization.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

IASB-2010-11A: Kevin Schick's Corporate Credit Card:

On September 30, 2009, Maxine Kilcrease approved Kevin Schick to be added to the IASB corporate credit card account with a credit limit of $10,000. Based upon the information provided from the bank, it appears Mr. Schick's credit card was set up under the corporate account of the organization. Mr. Schick used this credit card to purchase a trip to Bora Bora for himself and a guest in addition to using the card for other apparent personal charges. The total amount of apparent personal charges on the credit card related to the Bora Bora trip was $8,708.19. Total expenses that do not have supporting documentation were $10,521.23 including the trip to Bora Bora. Credit card expenses dated December 26, 2009 and prior were paid on several dates by the organization with the last date being on January 28, 2010. On February 5, 2010, Mr. Schick repaid $7,500 via a cashiers check to the organization, which was deposited on February 9, 2010. Expenses incurred on the credit card from January 2, 2010 through January 22, 2010 were paid on March 12, 2010 by the organization. On April 28, 2010, Mr. Schick paid $2,100 to the organization through his attorney's trust account. Total amount repaid to the organization was $9,600. The remaining balance in which receipts are not present and therefore a determination can not be made as to the business or personal nature is $1,216.61.

On January 13, 2010, Mr. Lagerblade e-mailed Mr. Schick and requested Mr. Schick to turn in receipts related to the credit card. Brooks Lodden, P.C. inquired of Mr. Lagerblade if Mr. Schick had notified him of the personal charges on the credit card. Mr. Lagerblade stated that Mr. Schick did not notify him of the personal charges that were charged on the credit card.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-11A: Kevin Schick's Corporate Credit Card: *(Continued)*

Charging personal expenses on the IASB corporate credit card could constitute a loan by the organization to Mr. Schick. Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan. Mr. Schick served as the Chief Financial Officer of the organization and would be deemed to be classified as an officer of the organization. By charging personal expenses on the organization's credit card, Mr. Schick may have violated this statute.

The following table summarizes Mr. Schick's transactions on his corporate credit card account:

Transaction Date	Memo	Amount	Bora-Bora Trip	Receipt Present	Business/ Personal Expense
10/17/09	Lowes	$ 14.70	-	Yes	Business
10/21/09	Lowes	142.07	-	Yes	Business
10/26/09	Rock Bottom	31.49	-	No	No determination made
10/29/09	Annual Membership	15.00	-	N/A	Business
11/01/09	Amazon.com	32.12	-	No	No determination made
11/07/09	Amazon Mktplace	8.49	-	No	No determination made
11/05/09	La Bamba Mexican Rest	24.67	-	No	No determination made
11/09/09	Centro Rest	31.21	-	No	No determination made
11/16/09	Oriental Trading Co	177.19	-	Yes	Business
11/17/09	Noah's Ark Ristorante	50.99	-	No	No determination made
11/19/09	Marriott DSM	6.00	-	No	No determination made
12/03/09	Amazon MktPlace	41.85	-	No	No determination made
12/06/09	Halls Crown Center (KC)	107.73	-	No	No determination made
12/07/09	Asurion Wireless Insurance	50.00	-	No	No determination made
12/08/09	RedBox DVD Rental	3.18	-	No	No determination made
12/11/09	RedBox DVD Rental	6.36	-	No	No determination made
12/15/09	Kohl's	63.64	-	No	No determination made
12/15/09	TJMaxx	172.74	-	No	No determination made
12/17/09	Marriott WDSM	11.49	-	No	No determination made
12/18/09	Jimmy's American Café	39.19	-	No	No determination made
12/19/09	TJMaxx	42.38	-	No	No determination made
12/22/09	Amazon MktPlace	5.78	-	No	No determination made
12/21/09	Halls Crown Center(KC)	86.00	-	No	No determination made
12/22/09	Amazon.com	121.07	-	No	No determination made
12/21/09	Centro Restaurant	95.45	-	No	No determination made
12/23/09	Bed Bath & Beyond	33.84	-	No	No determination made
12/27/09	COA Airline Taxes & Fees	50.00	50.00	No	Personal
12/27/09	COA Airline Taxes & Fees	70.00	70.00	No	Personal
12/23/09	Marshalls	101.95		No	No determination made
12/26/09	Continental-Kevin Schick. Departure Date 1/3/2010	297.70	297.70	No	Personal
12/26/09	Continental-Ryan English Departure Date 1/3/2010	297.70	297.70	No	Personal
12/26/09	Southwest Air-Kevin Schick Departure Date 12/27/09	428.70	428.70	No	Personal

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-11A: Kevin Schick's Corporate Credit Card: *(Continued)*

The following table summarizes the transactions on this corporate credit card account: *(Continued)*

Transaction Date	Memo	Amount	Bora-Bora Trip	Receipt Present	Business/ Personal Expense
12/26/09	Southwest Air-Ryan English Departure Date 12/27/09.	$ 428.70	$ 428.70	No	Personal
12/26/09	Air Tahiti-Ryan English Departure Date 12/27/09	2,154.63	2,154.63	No	Personal
12/26/09	Air Tahiti-Kevin Schick Departure Date 12/27/09	2,154.63	2,154.63	No	Personal
01/02/10	SVC Chg-ISA Fee	27.98	27.98	No	Personal
01/02/10	Saint Regis Hotel	2,798.15	2,798.15	No	Personal
01/08/10	Amazon MktPlace	107.00	-	No	No determination made
01/11/10	Office Max	37.07	-	No	No determination made
01/12/10	PayPal	210.94	-	No	No determination made
01/12/10	Shop Seating	229.00	-	No	No determination made
01/13/10	Amazon MktPlace	108.00	-	No	No determination made
01/14/10	The Big Steer	46.48	-	No	No determination made
01/13/10	Franklin Covey	92.14	-	No	Business
01/16/10	Mister Car Wash	29.07	-	No	No determination made
01/15/10	Tandoor Authentic Indian	37.76	-	No	No determination made
01/14/10	Irish Democrat	41.18	-	No	Business
01/16/10	Kum & Go	57.29	-	No	No determination made
01/18/10	Centro Restaurant	39.90	-	No	No determination made
01/22/10	La Hacienda	23.29	-	No	No determination made
Totals		$ 11,283.89	$ 8,708.19		
Payment 02/05/10		(7,500.00)			
Payment 04/28/10		(2,100.00)			
Business expense		(467.28)			
Total remaining unreimbursed expenses		$ 1,216.61			

In order to qualify as an accountable plan, where the expenses would not be considered compensation to the employee, the employer's reimbursement arrangement must meet all of the following requirements:

1. The employee must have incurred the expenses while performing services as an employee and the expenses must have a business connection.
2. The employer generally must reimburse actual expenses [in some situations, the employer may use a per diem rate for the reimbursement (e.g., for lodging and meals and incidentals)].
3. The employee must make an adequate accounting of the expenses to the employer within a reasonable period of time after the expenditure has been incurred.
4. If the employer makes an advance to employees in anticipation of future expenses, (a) the advance must be made within a reasonable period of time of the date the expenses are expected, (b) the amount of the advance must be reasonably expected to equal the future expenses, and (c) the employee must be required to return any unused portion of the advance within a reasonable period of time.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-11A: Kevin Schick's Corporate Credit Card: *(Continued)*

A nonaccountable plan is a reimbursement arrangement that fails one or more of the four requirements of an accountable plan as noted above. Reimbursements paid under a nonaccountable plan are added to the Form W-2 wages of an employee or in the case of a contactor a Form 1099-MISC would be filed; therefore, not requiring employees or contractors to account for the expenses would require these unreimbursed expenses to be treated as compensation to the individual.

Recommendation: The Board should require Mr. Schick to provide documentation on all expenses charged on the credit card. Any receipts which cannot be substantiated as business expenses should be reimbursed back to the organization. Total amount of unsubstantiated expenses remaining unpaid was $1,216.61.

Response: The IASB Board's outside counsel has prepared a letter requesting documentation on all expenses charged on the credit card that has not been reimbursed. This information has not been provided by Mr. Schick to the organization. The amounts will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Response: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

Recommendation: The Board should remove credit cards from all employees and only retain a corporate card to be used for necessary business expenses of the organization. Procedures should be established to include an authorization process in which a transaction is approved before the charge is made to the credit card. A formal form should be prepared and maintained documenting the approval and the business purpose of the transaction. Itemized receipts should be obtained to support all charges on the credit card and given to the accounting department to include as support for the credit card transactions.

Response: The IASB Board passed revisions to the Credit Card policy at their meeting on April 25, 2010. Corporate credit cards may only be used for business expenses, charges require an itemized receipt, and any personal or unauthorized charges require reimbursement from the employee within ten working days. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-12A: Unauthorized Transfers:

On September 21, 2009, it appears Kevin Schick made an unauthorized transfer from the Iowa Council of School Board Attorneys (ICSBA) account in the amount of $10,000 to Local Government Services (LGS). ICSBA is designated as an agency fund in which IASB manages on behalf of ICSBA. Mr. Schick did not have the authority to make this transfer nor did the ICSBA committee approve Mr. Schick to be an authorized signor on the account. Brooks Lodden, P.C. obtained the signature cards from the bank and noted the signature cards were changed on September 21, 2009 to include Maxine Kilcrease, Kevin Schick, and Mary Delagardelle. No banking resolution authorizing this change on September 21, 2009 was approved by the Board or ICSBA, nor was proper controls established to oversee the duties performed by Mr. Schick. Payment was made to ICSBA in the amount of $10,000 on June 2, 2010.

On December 1, 2009, it appears Kevin Schick made unauthorized transfers from the Iowa School Employee Benefit Association (ISEBA) account in the amount of $500,000 to the Iowa Association of School Boards and LGS. Mr. Schick did not have the authority to make this transfer nor did the ISEBA Board approve Mr. Schick to be an authorized signor on the account. Brooks Lodden, P.C. obtained the signature cards from the bank and noted the signature cards were changed on September 21, 2009 to include Maxine Kilcrease, Kevin Schick, and Mary Delagardelle. No banking resolution authorizing this change on September 21, 2009 was approved by the Board; nor were proper controls established to oversee the duties performed by Mr. Schick. Outside legal counsel researched whether or not ISEBA could loan funds to either the Iowa Association of School Boards or to LGS. Based upon their research of the Iowa Constitution Article VII, this transfer would not be permissible under the Iowa Code. As of June 30, 2010, the remaining balance due to ISEBA was $174,217. Subsequent to year end, the total amount was repaid by the organization to ISEBA.

Recommendation: The Board should establish controls over authorization and the transfer of funds from the organization's bank account.

Response: The IASB Board passed an Internal Control Resolution at their meeting on June 18, 2010, requiring signature approval of at least two of the following five individuals to approve transfers of funds into or out of the Association's accounts: President, Executive Director, Chief Financial Officer, Treasurer, and Leadership Development Director.

The IASB Board passed a Banking Resolution at their meeting on May 13, 2010, requiring signature approval of Veronica Stalker, Executive Director, or Harry Heiligenthal, Director of Leadership Development, to sign checks or withdrawal orders against IASB accounts.

These resolutions and any updates to these resolutions will be documented in the minutes and with signature approval.

Auditor's Response: Brooks Lodden, P.C. concurs with the response.

<u>PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010</u> ***(Continued)***

IASB-2010-12A: <u>Unauthorized Transfers:</u> ***(Continued)***

<u>Recommendation:</u> The Board should establish procedures to ensure a resolution is formally adopted before any personnel are added or removed from the bank signatory cards.

<u>Response:</u> The IASB Board passed a Banking Resolution at their meeting on May 13, 2010, requiring signature approval of Veronica Stalker, Executive Director, or Harry Heiligenthal, Director of Leadership Development, to sign checks or withdrawal orders against IASB accounts. These resolutions and any updates to these resolutions will be documented in the minutes and with signature approval.

<u>Auditor's Response:</u> Brooks Lodden, P.C. concurs with the response.

<u>Recommendation:</u> The Board should report the unauthorized transfers to the proper authorities for investigation.

<u>Response:</u> The unauthorized transfers have already been reported to the proper authorities for investigation.

<u>Auditor's Response:</u> Brooks Lodden, P.C. concurs with the response.

<u>Recommendation:</u> The Board should work with the ICSBA Committee to repay the $10,000 and ISEBA to repay the remaining balance due of $174,217.

<u>Response:</u> The $10,000 was repaid to the Iowa Council of School Board Attorneys (ICSBA) on June 2, 2010. The Board repaid the Iowa Schools Employee Benefits Association (ISEBA) the balance owed on August 31, 2010.

<u>Auditor's Response:</u> Brooks Lodden, P.C. concurs with the response.

IASB-2010-13A: <u>Sale of PaySchools:</u>

During the IASB Executive Committee Meeting on October 14, 2009, Mr. Schick presented information to the Executive Board regarding the possible sale of the PaySchools program to eBay. Mr. Schick stated this is a tentative offer as there are issues that need to be worked out with the contracts.

In the LGS board minutes from the October 26, 2009 meeting stated, <u>*Kevin said he met with eBay (PayPal) representatives and they made an offer to purchase PaySchools for $1.5 million with a down payment of $500,000. The balance of the purchase would be paid January 1.*</u> In addition, the minutes also stated that <u>*Kevin noted he had valuation reports completed for PaySchools. Those reports show that PaySchools has a negative value based on the outstanding merchant account issue with Visa*</u>. Brooks Lodden, P.C. requested the valuation reports and any payments made to any valuation experts; however, no information could be provided to support any valuations performed on the PaySchools program.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-13A: Sale of PaySchools: *(Continued)*

At the December 4, 2009 LGS board meeting, *Maxine Kilcrease shared, We have made a deal with eBay for the purchase of PaySchools; LGS can accept their offer or not*. Also at this meeting LeGrande Smith noted that eBay has countersued Jon Muller and Pat Ricci, implying that these individuals were suing eBay. Brooks Lodden, P.C. interviewed both Mr. Muller and Mr. Ricci regarding the eBay lawsuit. Both individuals stated that they were not suing eBay and were very surprised by this accusation. Mr. Smith also provided details regarding the PaySchools resolution noting that approval of the resolution will allow the staff to begin preparing documentation for the transfer. Mr. Smith stated the transfer will include all assets and liabilities of the LGS Corporation. Mr. Schick noted the target date for the transfer to occur was January 15, 2010. Mr. Schick stated that the entire transfer process could take up to six months. He also noted that the employees currently working for PaySchools will have jobs after this transfer is complete.

On January 8, 2010, previous outside counsel sent a letter to the Wells Fargo Law Department which stated that, "*After another considerable period of time, a potential buyer has been found. Due to the confidential nature of the discussions I am not at liberty to divulge the buyer's identity; however, I can report that the parties have engaged in due diligence (which is ongoing), and an understanding has been agreed going forward. I can also report that the buyer is a large, sophisticated party that is aware of VISA's rules and procedures. Because of the nature of the PaySchools business (school year, public bodies, fiscal year endings) a closing date goal has been set for July 1, 2010.*" This letter provided to Wells Fargo appears to give the impression the previous outside counsel was aware there was a deal between the organization and eBay to sell the PaySchools program; however, no documentation could be provided to Brooks Lodden, P.C. regarding any informal or formal contracts, documents, or discussions on this sale other than the items noted by Mrs. Kilcrease and Mr. Schick in both the IASB and LGS board minutes. On January 12, 2010, a legal letter was prepared to Perkins & Coie and signed by Mrs. Kilcrease and given to Brooks Lodden, P.C. to confirm any threatened or pending lawsuits. Perkins & Coie is based out of San Francisco, California and was the firm that was allegedly being used by Mr. Schick to help work with the organization on the sale of PaySchools to eBay. Brooks Lodden, P.C. searched for any payments or invoices recorded in the accounting system to determine if any invoices were submitted by this firm to the organization for payment. Based upon our review, no invoices were found for any service this legal firm provided to the organization.

In the January 19, 2010 IASB board minutes, Mrs. Kilcrease noted that at the last board meeting the organization tabled the PaySchools presentation due to the lawsuit filed against eBay (i.e. Jon Muller and Pat Ricci). Mr. Schick said with the pending lawsuit that eBay would not advance the $1 million; and therefore, a $1 million line of credit was set up with Bankers Trust. As of January 19, 2010, Mr. Schick stated that $750,000 of the line of credit has been consumed. Brooks Lodden, P.C. spoke with the bank regarding this line of credit and the bank disclosed that they had never entered into a line of credit agreement with the organization nor were there any discussions with Mrs. Kilcrease or Mr. Schick regarding obtaining a line of credit. In the January 19, 2010 LGS board minutes, Mr. Schick stated the sale of PaySchools to eBay should be completed within the next 2-3 weeks. IASB will receive $1.5 million plus a 10-year royalty stream of 85 percent of future revenues.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-13A: Sale of PaySchools: ***(Continued)***

On January 21, 2010, an employee filed a whistleblower complaint alleging that the sale of PaySchools to eBay was not true and that Mr. Schick was not forthcoming with information to the staff and Board. An investigation was performed by the previous outside counsel. The preliminary report to the Executive Board showed that based upon individuals contacted at eBay, there was never a deal made with eBay regarding the sale of the PaySchools program, nor was eBay involved in any discussions or due diligence related to the purchase of PaySchools as Mrs. Kilcrease, Mr. Schick, and Mr. Smith had presented to the Board. It appears the outside counsel performed the investigation of the PaySchools whistleblower complaint against Mr. Schick, as well as provided legal services to Mr. Schick. In addition, as noted above in the January 8, 2010 letter from previous outside counsel to Wells Fargo, the previous outside counsel appeared to be intimately involved in the eBay deal. The investigation of the PaySchools sale did not include all parties involved in the alleged potential sale of PaySchools.

On January 22, 2010, in a meeting with Mr. Schick, Mr. Smith, Mrs. Delagardelle, representatives from Brooks Lodden, P.C., representatives from the State Auditor's Office, and two board members, Mr. Schick stated that the PaySchools program had a "backdoor" written into the program that allows for the possibility of money to be diverted and this was found by an eBay reviewer during the due diligence process. Brooks Lodden, P.C. interviewed the PaySchools programmer as well as another IT staff member regarding the backdoor issue and what the eBay reviewer found. Both of these individuals stated that they were not aware of any eBay reviewer performing any type of due diligence. In addition, they were not aware of any "backdoor" feature that would allow access to the program from the outside. It does not appear that any due diligence was performed on the sale of the PaySchools program and the Board appears to have been misled by the Executive Council. No financial information could have been relied upon to make an accurate determination of whether it was in the best interest of the organization to sell the PaySchools program as financial statements had not been completed. No formal analysis was given to the Board by Mr. Schick of the potential loss or profitability of the program, nor was there any type of formal valuation of the PaySchools program provided to the Board by Mr. Schick or Mrs. Kilcrease to determine if the alleged $1.5 million purchase price was reasonable.

Recommendation: The Board should establish procedures to ensure that any potential future sales of major assets require a formal analysis of the program, including potential loss or profitability. Any potential purchaser of the asset/program should sign a non-disclosure agreement before any information is provided to the potential purchaser and approved by the Board. Any analysis or valuation of the asset/program to be sold should be brought before the Board before any action is taken on the retention or sale of an asset/program.

Response: The Asset Protection policy was revised on July 14, 2010 to state that the Executive Director shall not engage or allow staff to engage in negotiations with a potential purchaser of an asset/program without: (a) a signed non-disclosure agreement; (b) without doing an analysis or valuation of the asset including potential loss or profitability; or (c) without knowledge of the Board.

Auditor's Response: Brooks Lodden, P.C. concurs with the adopted policy, however, we also recommend that the Board established procedures to ensure that when a potential sale is being discussed, the policy is reviewed by the Board to ensure the policy is being followed.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-14A: Accounting Software:

On June 3, 2010, Mr. Schick testified to the Legislative Oversight Committee that IASB's accounting system was archaic, where each organization had its own system that drove the need to purchase new accounting software. In 2006, IASB purchased Microsoft Great Plains accounting software package (now called Microsoft Dynamics) and converted the old accounting data at that time. The organization received and made yearly updates to the software every year through 2009. Each organization managed by the IASB was set up as a separate entity on Microsoft Dynamics and the financials were tracked separately. As a result of the purchase and subsequent updating of the software, it does not appear the system was archaic, nor did each organization use a separate accounting system as stated by Mr. Schick.

The Board was told that financial statements could not be produced as the information was not entered into the accounting system subsequent to June 30, 2009, and the accounting staff would have to enter all of the transactions into the accounting system which would take some time to complete. This did not appear to be an accurate statement as approximately 80-90% of the transactions processed by the accounting department were already entered into the accounting system by separate personnel via the accounts payable or accounts receivable modules. Two separate individuals usually handled these modules separate from Mrs. Albers, and these individuals would update the accounting system immediately when an invoice was received, checks were written, invoices were billed to customers/ members, or deposits were received. After Mrs. Albers was terminated, these employees continued to perform these functions.

On November 25, 2009, Mr. Schick entered into a contract to purchase accounting software in the amount of $47,345 plus an estimated $30,000 for consulting services related to installation, setup, and importing balances, for a total of approximately $77,345. By entering into this contract, Mr. Schick appears to have violated internal policy *Code 205 which states that a single purchase or commitment of greater than $75,000 without prior Board approval cannot be made*. In addition, no other bids were received on this software and the total cost of the software was not disclosed to the Board. IASB minutes dated November 20, 2009 stated the following, "*Software-Accounting and Membership: Kevin said we are in the process of purchasing new accounting software and hope to have it operational by January 1, 2010.*" Since the organization did not have current financial statements from the existing software, it would typically not be feasible to install new software without up to date information. The total paid to the software company through the date of this report was $24,931.

Recommendation: The Board should establish procedures to ensure that all contracts are approved by the Board before any significant items are purchased and request that employees properly follow internal policies (i.e., bidding and board approval, etc.).

Response: The Financial Condition and Activities policy as revised in July 2010 states that the Executive Director shall not: (a) Make a single purchase or commitment of greater than $40,000 without prior board approval. A Contracts Procedure Resolution will be implemented requiring contracts be approved by the IASB Board. Approval of the contract will be documented in the minutes.

Auditor's Response: Brooks Lodden, P.C. concurs with the adopted policy.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-15A: Building Remodeling and Purchase of Executive Furniture

In anticipation of leasing space in the organization's building, Mrs. Kilcrease contracted with Joe Hansen, her former Chief of Staff at AEA 11, to provide consulting and remodeling services related to the building. Mrs. Kilcrease did not properly disclose the relationship to the Board to allow them to determine if a conflict existed. The cost to remodel the building was also not properly disclosed to the Board. Total cost incurred by the organization to remodel the building was approximately $41,018. This remodeling included $18,807 that was spent on the remodel of Mrs. Kilcrease's and Mr. Schick's offices. This included taking four existing offices and converting these offices into two offices, one for Mrs. Kilcrease and one for Mr. Schick. Total amount paid to Mrs. Kilcrease's former Chief of Staff was $12,528 which included $8,170 for consulting fees related to the Phase I & Phase II of the building remodel. In addition, Brooks Lodden, P.C. also noted through a review of invoices of furniture and equipment purchases that approximately $10,817 was spent on furniture for Mrs. Kilcrease's office.

Recommendation: The Board should establish a policy that any contract related to capital improvements or any major purchase of furniture be presented to and approved by the Board. Also, any major capital improvements to the building and potential conflicts of interest should be properly disclosed and reviewed by the Board.

Response: A Contracts Procedure Resolution will be implemented requiring contracts be approved by the IASB Board. Approval of the contract will be documented in the minutes. The Conflict of Interest policy has been revised by counsel and has been presented to the board for approval. The Financial Condition and Activities policy as revised in July 14, 2010 states that the Executive Director shall not: Make a single purchase or commitment of greater than $40,000 without prior board approval or acquire, encumber, or dispose of real property without prior board approval. Conflict of interest disclosure forms will be required to be signed by all board of directors, employees, and independent contractors upon hiring, and at least annually thereafter.

Auditor's Response: Brooks Lodden, P.C. concurs with the adopted policy.

IASB-2010-16A: Investigation of Allegations:

On September 9, 2009, Mr. Schick and Mrs. Kilcrease met with a school business official and Mr. Schick disclosed to this individual that Jon Muller, prior CFO, had personally received checks from vendors of IASB. Mrs. Kilcrease did not disclose this to Brooks Lodden, P.C. during our fraud inquires on October 12, 2009 and again in the letter to Brooks Lodden, P.C. dated January 22, 2010. Mr. Schick also did not disclose this to Brooks Lodden, P.C. during fraud discussions with Mr. Schick on October 27, 2009. Brooks Lodden, P.C., requested and reviewed documentation on every payment made to Jon Muller from IASB and its related organizations for the period of July 1, 2008 through June 15, 2010. Brooks Lodden, P.C. also reviewed all payroll during this same time, as well as contracts during the audits of all the related organizations, looking for any appearance of any contract being unreasonable. In addition, LWBJ (an outside CPA firm) also performed additional procedures regarding these allegations. No evidence has been uncovered to substantiate the claim made by Mr. Schick.

Recommendation: The Board has a fiduciary duty to protect the organization, including investigating any claims of wrong-doing. However, when these claims are not substantiated and these allegations are communicated to outside parties without any due diligence being performed, it exposes individuals to unwarranted damage to their reputations, and exposes the organization to potential litigation from these individuals. The Board should ensure that claims are investigated in a timely manner and allegations are not communicated to any outside parties until the investigation is completed.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-16A: Investigation of Allegations: *(Continued)*

Response: The whistleblower policy has been reviewed. Counsel for the board will discuss whistleblower procedures with staff and the board, at least annually, to ensure understanding of the proper procedures to investigate any claims of wrong-doing. Investigations will be done in a timely manner, and allegations will not be communicated to outside parties until the investigation is completed.

Auditor's Response: Brooks Lodden, P.C. concurs with the planned action, however, based upon our conversations with staff no training has taken place yet.

IASB-2010-17A: Critical Accounting Routines & Timeliness of Financial Statements:

Critical accounting routines are tasks which are to be completed on a regular basis in order to ensure the timeliness and accuracy of the flow of information to management, and to provide the Board of Directors sufficient timely and accurate information so that they are able to fulfill their oversight responsibilities. During the audit, it became apparent that certain accounts were not being reconciled and financial statements had not been provided to the Board after the termination of the Director of Finance on September 17, 2009. It was not until the prior Director of Finance returned to the organization in March 2010 that financial statements were starting to be prepared and provided to the Board. Financial statements were updated through June 30, 2010 by the prior Director of Finance and were provided to the Board during the September meeting. This individual provided a two-month resignation in order to ensure proper transition of the position and is no longer working with the organization. The organization did not take timely measures in order to properly transition the duties performed by this individual. Subsequently, reconciliations and financial statements are not being prepared in a timely manner.

Recommendation: The Board should ensure that formal policies are incorporated to require management to timely reconcile accounts and provide complete and accurate financial statements on a monthly basis to the Board for review. If management does not provide timely financial statements on a monthly basis to the Board, the Board should obtain an explanation from management to determine if the delay is appropriate.

Response: The Financial Condition and Activities policy was revised in July 14, 2010 to state that the Executive Director shall not: (a) allow bank accounts to be unreconciled for more than 30 days, (b) fail to ensure financial statements are produced for each meeting of the Board of Directors without an appropriate explanation as to the delay; (c) allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation; and (d) allow the organization to receive loans or guarantees of obligations from a director or officer of the corporation

Auditor's Response: Brooks Lodden, P.C. concurs with the adopted policy, however, this policy is currently not being followed. Bank accounts are not being reconciled within the 30 day requirement, and financial statements are not being prepared in a timely manner. Based upon our conversations with accounting personnel, it appears the lack of timely financial statements is a result of not having enough personnel in place to handle all of the necessary duties the accounting department is tasked with. We recommend the Board review this situation and determine whether additional staff are needed to get the financial statements updated and completed in a timely manner.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-18A: Segregation of Duties and Supervision & Review

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles. Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud affecting the organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. The Director of Finance had access to all accounting software and calculated and posted the majority of transactions of the organization. In addition, the PaySchools program service specialists have full access to make changes to school's information in PaySchools. After the termination of the Director of Finance, Mr. Schick was given full access to the accounting system and was added as an authorized signatory on the bank account without any compensating controls being established to oversee his activities. During the year ended June 30, 2010 and subsequent to June 30, 2010, the duties performed by the accounting personnel had not been reviewed by an independent individual.

Recommendation: The Board should require management to review and document current internal controls, establish a process for an ongoing review of these controls, and make changes to adequately segregate the duties of the accounting staff. If the duties cannot be segregated, procedures should be established to ensure the duties are reviewed by an independent individual. This review should be performed monthly and documented on all financial accounting records by formally noting the individual who performed the review.

Response: The IASB Board passed an Internal Control Resolution at their meeting on July 14, 2010, requiring signature approval of at least two of the following five individuals to approve transfers of funds into or out of the Association's accounts: President, Executive Director, Chief Financial Officer, Treasurer, and Leadership Development Director.

The IASB Board passed a Banking Resolution at their meeting on May 13, 2010, requiring signature approval of Veronica Stalker, Executive Director, or Harry Heiligenthal, Director of Leadership Development, to sign checks or withdrawal orders against IASB accounts.

These resolutions and any updates to these resolutions will be documented in the minutes and with signature approval.

Auditor's Response: Brooks Lodden, P.C. agrees with the resolutions that were passed, however, internal controls not only consist of approval for transfers of funds and check signing, but also include proper oversight of accounting personnel and processes to ensure that information in the general ledger and financial statements are accurately reported. We emphasis the need for current internal controls to be documented, reviewed, and changed as deemed necessary to ensure the assets of the organization remain protected.

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-19A: PaySchools Programmer

The organization hired an in-house programmer in March 2009 to provide the necessary support for the PaySchools program. This programmer has sole access to develop program changes and move them into production. Prudent security practice requires restricting programmers from moving programs into production environments. This type of access increases the risk of a programmer making unauthorized changes resulting in data integrity concerns, possible fraudulent intent, or interruption to the business.

Recommendation: Management should follow prudent security practice by removing the production access from the programmer and assigning an individual independent of program change development to move changes into production. If the duties cannot be segregated, procedures should be established to ensure program changes are reviewed by an independent individual.

Response: At this time, management cannot fully segregate the duties of moving programming changes into production. However, management has reviewed the procedures currently in place and ensure there is a logging of all code changes throughout every step from the programmer's restricted coding area to development to test to production. Management has also implemented a code review procedures and documentation of the review using a file compare program by a staff member other than the programmer. An additional programmer has been added to the PaySchools programming staff, which will assist in segregating duties.

Auditor's Response: Brooks Lodden, P.C. continues the stress the need to ensure proper procedures are in place to over see the activities of the programmer.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2010

U.S. Department of Education

IASB-2010-20A: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K

On January 22, 2010, an e-mail was sent to Susie Olesen, Skills Iowa Director, from Randy Lagerblade stating, "*We were able to draw a final $476,530.76 today to cover the remaining expenses and overhead allocations which had not been previously drawn. This leaves $17,401.37 of grant money.*" On January 25, 2010, the $476,530.76 was deposited into the organization's bank account.

On January 24, 2010, Mrs. Olesen e-mailed Mr. Lagerblade and copied Mrs. Delagardelle stating, "*In August of 2009, Jen Albers told me we had approximately $500,000 left in the account at the end of the grant period. In order to spend the remaining funds, IASB was told by the program officer, Emily Archer, that we had to write a proposal to the USDE on how we would expend the remaining funds after the grant period had ended, and then they could only be expended on activities related to the actual grant year*." Mrs. Olesen explained in her e-mail the cost incurred on the current grant and stated, *"However, if the money you drew down didn't come from this year's grant and instead came from last year's, it was drawn down from the wrong account and will need to somehow be adjusted. Either scenario suggests I need to know exactly how much money is available through the end of the year to operate this grant."* This e-mail was forwarded by Mrs. Delagardelle to Mrs. Kilcrease on January 24, 2010 at 9:44 a.m.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

U.S. Department of Education *(Continued)*

IASB-2010-20A: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K *(Continued)*

On January 28, 2010, the remaining $17,401.37 was submitted to the U.S. Department of Education to be drawn down. On January 29, 2010, the amount was deposited into the organization's bank account. On January 28, 2010, Mrs. Olesen contacted Brooks Lodden, P.C. to notify us of the potential issue with the Skills Iowa grant. During this conversation, she was concerned about the draw down since no financial information was being provided to her for review. On January 29, 2010, Mrs. Olesen sent an e-mail to Mr. Lagerblade and copied Mrs. Delagardelle stating, *"I understand you've been busy this week, but wanted to get on your list of reports. I really do need to see the financials for this year's Skills Iowa grant and see where we are and what's left."* On January 30, 2010, Mrs. Delagardelle e-mailed Mrs. Olesen and copied Mr. Lagerblade, Mrs. Kilcrease, and Mr. Smith stating, *"Susie, Randy has some work that must be completed within the next 5-7 days and then has to have all of the final information to the auditors by Feb. 15th. These are his two top priorities so he may not be able to print out account reports for a couple of weeks."* On January 30, 2010 Mrs. Delagardelle e-mailed Mrs. Kilcrease (referring to the January 30, 2010 e-mail noted above) stating, "*Just want you to see how I responded to Susie—Didn't want to "overstep my bounds" but thought I should keep Susie from distracting Randy—she's been contacting him a lot lately for different things…*" Mrs. Kilcrease responded back, "*Very appropriate response*." On February 23, 2010, Mrs. Olesen filed a whistleblower complaint listing several items, including the Skills Iowa grant. It was not until March 10, 2010, when Mrs. Albers returned to the organization that a determination was made that $493,932.12 had been inappropriately drawn down on the federal grant. According to Mrs. Olesen, she was never contacted by Mrs. Kilcrease, Mrs. Delagardelle, or Mr. Lagerblade regarding the possibility of the grant draw being done inappropriately. This amount was paid back to the U.S. Department of Education on April 14, 2010.

For the fiscal year 08-09, the organization received two grants from the Skills Iowa program. A state grant in the amount of $500,000 and a federal grant in the amount of $2,394,015. The organization applied $500,000 of expenditures related to the Skills Iowa grants to the state grant. This documentation was included as backup information for the federal grant draw that Mrs. Albers had originally prepared before the money was drawn down. On July 23, 2009, Brooks Lodden, P.C. discussed with both Mrs. Kilcrease and Mr. Schick the importance of establishing internal control procedures over federal grants to ensure that expenses are appropriate before funds are drawn down. These controls were not put in place. Both Mr. Lagerblade and Mrs. Delagardelle stated that they were unaware the state grant existed; however, Brooks Lodden, P.C. in various e-mails and conversations had requested the breakdown of state and federal expenses to order to make our selection for testing these expenditures. The information requested was also reiterated in a formal letter dated December 11, 2009 to Mr. Lagerblade, Mr. Schick, and Mrs. Kilcrease and again in a formal letter addressed to Mrs. Kilcrease on January 11, 2010. Brooks Lodden, P.C. performed additional fraud inquires with Mrs. Delagardelle on January 11, 2010, and at this time Mrs. Delagardelle stated that Mr. Lagerblade is looking into the state and federal grant draw downs. Management was well informed that two grants existed but did not disclose any information to Brooks Lodden, P.C. In addition, the warning signs by Mrs. Olesen were ignored as well as her requests for financial information to make the determination of the appropriateness of the draws on the federal grant.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-20A: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K *(Continued)*

Recommendation: The Board should establish procedures over federal grants to ensure that appropriate documentation is in place and approved before grant funds are drawn down. The Board should also ensure their employees possess the necessary skills to understand the grants, the expenses associated with the grants, and federal laws, rules, and regulations associated with the grants as well as the documentation, reporting, and compliance requirements necessary to support expenditures related to the grants.

Response: The grants policy was revised on July 14, 2010, to require documentation of grant procedures, signature approval by the grant project director and controller documenting approval of the grant expenditures prior to requesting any reimbursements of federal funds, require compliance of all grant provisions and regulations (including procurement), and require employees or contractors working on grant projects to keep detailed time records.

Auditor's Response: Brooks Lodden, P.C. concurs with the adopted policy, however, in order for a policy to work, procedures have to be in place to ensure compliance with the policy. As of January 7, 2011, the grant draws continue to be not submitted in a timely manner. For the fiscal year 2011, September through December salary and expense amounts have not been submitted for reimbursement. In order to properly account for the activities of the grant, it is necessary to ensure procedures are in place to comply with the grant and federal requirements related to the grant.

IASB-2010-21A: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K

During the review of expenditures related to the Skills Iowa program, we found that the organization's subcontracting activities did not comply with the procurement standards set forth in Education Department General Administrative Regulations (EDGAR). The organization did not comply with procurement standards when it awarded the software contracts to US Skills, LLC. Total amount paid to US Skills, LLC for software for the school districts participating in the program was $2,490,000. This instance of noncompliance appears to be the result of a misunderstanding regarding the intention of the grant. The grant received by the organization for the period September 4, 2009 through September 3, 2010, was written as a continuation of the Skills Iowa program that was previously being conducted in the state of Iowa. The software used in this program was originally purchased by Education Leaders Council (ELC) in 2002. In a report dated July 28, 2006, from the Office of Inspector General of the U.S. Department of Education (OIG), it was noted that ELC did not properly procure the software; however, the prices paid by ELC for the software were reasonable relative to the prices paid by other clients of the software vendor. This software continued to be used by the Iowa teachers and schools participating in the Follow the Leaders (FTL) program, later renamed Skills Iowa. IASB started administering the Skills Iowa program during the 2007-2008 fiscal year. Based upon information provided by management, the cost of the software received during the year was provided at a 59% discount to the organization. On June 2, 2010, the software bidding was discussed with the U.S. Department of Education and the interpretation of the U.S. Department of Education was that since the software being purchased took the presence of a software update versus the purchasing of new software, the software would not have to be submitted to the rebidding process.

Recipients are required under EDGAR to establish policies and procedures for procurement. Regulations in 34 C.F.R. §§ 74.40 through 74.48 contain the procurement standards to be used by grantees.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-21A: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K *(Continued)*

These procurement standards include:

- The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. 34 C.F.R. § 74.42
- All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. 34 C.F.R. § 74.43
- All recipients shall establish written procurement procedures. 34 C.F.R. § 74.44(a)
- Recipients shall, on request, make available for the Secretary, procurement documents, such as request for proposals or invitations for bids, independent cost estimates, et cetera, when certain conditions apply. Examples of these conditions include (1) a recipient's procurement procedures fail to comply with the procurement standards, and (2) the procurement is expected to exceed $25,000 and is to be awarded without competition. 34 C.F.R. § 74.44(e)
- Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. 34 C.F.R. § 74.45
- Procurement records for purchases in excess of $25,000 must include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price. 34 C.F.R. § 74.46

The management of the organization is responsible for establishing and maintaining effective internal control over federal programs that provides reasonable assurance that the organization is managing federal awards in compliance with laws, regulations, and grant provisions. Additionally, the management of the organization is responsible for complying with laws, regulations, and grant provisions related to its federal programs.

Recommendation: The organization should adopt procurement policies and procedures that comply with all the requirements set forth in regulations in 34 C.F.R. §§ 74.40 through 74.48 and ensure that it complies with procurement and documentation standards set forth in the Department of Education regulations when renewing or awarding any federally funded contract. To avoid any future issues with bidding on the unique items, the cost comparisons and the explanation of why the amount will not be bid out should be in the application to the Department of Education and pre-approved to ensure that all parties agree in advance of how the grant money will be spent.

Response: The grants policy was revised on July 14, 2010, to require documentation of grant procedures, signature approval by the grant project director and controller documenting approval of the grant expenditures prior to requesting any reimbursements of federal funds, require compliance of all grant provisions and regulations (including procurement), and require employees or contractors working on grant projects to keep detailed time records.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2010 *(Continued)*

IASB-2010-21A: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K *(Continued)*

Auditor's Response: Brooks Lodden, P.C. concurs with the adopted policy, however, in order for a policy to work, procedures have to be in place to ensure compliance with the policy. As of January 7, 2011, the grant draws continue to be not submitted in a timely manner. For the fiscal year 2011, September through December salary and expense amounts have not been submitted for reimbursement. In order to properly account for the activities of the grant, it is necessary to ensure procedures are in place to comply with the grant and federal requirements related to the grant.

IASB-2010-22A: Fund for the Improvement of Education–FIE Earmark Grant Awards (Lighthouse)—CFDA No. 84.215K

During audit we noted the federal grant draws for the Lighthouse grant were not performed in a timely manner. The timeliness of the draw down of federal funds was a result of several individuals assigned to the grant not providing their time to the accounting department in a timely manner. Brooks Lodden, P.C. reviewed several e-mails sent by the prior Director of Finance to the Deputy Executive Director and one of the contractors requesting the information in order to complete the documentation to draw down the federal grant money. Both of these individuals did not provide the information in a timely manner in order for the prior Director of Finance to draw down the money timely. Attachment B, Selected Items of Cost, Section 8(m) Support of Salaries and Wages, of A-122 Cost Principles for Non-Profit Organizations, states the reports of salary must be prepared at least monthly and must coincide with one or more pay periods. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. In addition, one of the individuals the organization contracted with to perform services to the grant did not have a signed contract.

Recommendation: The Board should establish procedures to require employees working on federal grants to account for their time at least monthly and include a full detailed description of the activities performed by the employee on a daily basis. In addition, any contractors working on the grant should have a signed contract on file before any payments are made to the individual.

Response: The grants policy was revised on July 14, 2010, to require documentation of grant procedures, signature approval by the grant project director and controller documenting approval of the grant expenditures prior to requesting any reimbursements of federal funds, require compliance of all grant provisions and regulations (including procurement), and require employees or contractors working on grant projects to keep detailed time records.

Auditor's Response: Brooks Lodden, P.C. concurs with the adopted policy, however, in order for a policy to work, procedures have to be in place to ensure compliance with the policy. In order to properly account for the activities of the grant, it is necessary to ensure procedures are in place to comply with the grant and federal requirements related to the grant.

IOWA ASSOCIATION OF SCHOOL BOARDS

CORRECTIVE ACTION PLAN FOR FEDERAL AUDIT FINDINGS
For the Year Ended June 30, 2010

Comment Number	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
IASB-2010-01A	Compensation	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-02A	Maxine Kilcrease's Compensation	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-03A	Mary Delagardelle's Compensation	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-04A	LeGrande Smith's Compensation	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-05A	Mary Gannon's Compensation	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-06A	Connie Maxson's Compensation	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011

IOWA ASSOCIATION OF SCHOOL BOARDS

CORRECTIVE ACTION PLAN FOR FEDERAL AUDIT FINDINGS *(CONTINUED)*

For the Year Ended June 30, 2010

Comment Number	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
IASB-2010-07A	Jackie Black's Compensation	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-08A	Contracted Services	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-09A	KSL Consulting, LLC Contracted Services	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-10A	Randy Lagerblade Contracted Services	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-11A	Kevin Schick's Corporate Credit Card	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011

IOWA ASSOCIATION OF SCHOOL BOARDS

CORRECTIVE ACTION PLAN FOR FEDERAL AUDIT FINDINGS *(CONTINUED)*
For the Year Ended June 30, 2010

Comment Number	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
IASB-2010-12A	Unauthorized Transfers	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-13A	Sale of PaySchools	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-14A	Accounting Software	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-15A	Building Remodeling and Purchase of Executive Furniture	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-16A	Investigation of Allegations	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011

CORRECTIVE ACTION PLAN FOR FEDERAL AUDIT FINDINGS *(CONTINUED)*

For the Year Ended June 30, 2010

Comment Number	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
IASB-2010-17A	Critical Accounting Routines & Timeliness of Financial Statements	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-18A	Segregation of Duties and Supervision & Review	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-19A	PaySchools Programmer	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-20A	Fund for the Improvement of Education (Skills Iowa)-CFDA No. 84.215K	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-21A	Fund for the Improvement of Education (Skills Iowa)-CFDA No. 84.215K	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011
IASB-2010-22A	Fund for the Improvement of Education (Lighthouse)-CFDA No. 84.215K	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Veronica Stalker, Executive Director of the Iowa Association of Schools Boards (515) 288-1991	Fiscal Year 2011

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2010

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT

IASB-2010-01B: Compensation:

Due to recent events regarding large increases in executive salaries, the Board should review and formally approve all salaries on behalf of the organization. Prior to July 1, 2009, the Board annually performed a review of the Executive Director and set the Executive Director's salary for the upcoming year using the National School Boards Association (NSBA) salary survey as a guide. The Board then approved the remaining salaries of the organization as a budget line item. Per organizational policy, the Executive Director reviewed individual salaries and made adjustments as deemed necessary.

On September 17, 2009, Margaret Buckton, Lisa Bartusek, and Jen Albers, three long-term employees, who had each worked for the organization for over 10 years, were terminated due to what Maxine Kilcrease (Executive Director) cited as budget cuts. Mrs. Kilcrease stated in a Des Moines Register article "School board association lays off 3 officials, cites budget trouble," dated October 14, 2009, "*The three jobs cut reflected cost-saving efforts, not the women's work. Their departures save up to $400,000, she said.*" However, on September 18, 2009, the day after Mrs. Albers was terminated, Randy Lagerblade was hired as a consultant at a rate of $100/hour to replace Mrs. Albers and remained a consultant until October 15, 2009. Mr. Lagerblade became a permanent employee on October 16, 2009. Mr. Lagerblade performed 170.34 hours of service for a total amount paid of $17,034. If Mrs. Albers had been retained as an employee through this time, gross salary paid, including benefits and taxes, would have been approximately $9,450. The use of a consultant cost the organization an additional $7,584, which substantially increased the cost of providing these services during this time period. Mr. Lagerblade's annualized salary of $95,560 was also approximately $14,560 more than what was paid to Mrs. Albers. On an annualized basis, this actually would have cost the organization an additional $104,640.

All three of these individuals were offered a severance package; however, only Lisa Bartusek accepted the severance package. Total amount paid to Lisa Bartusek for the severance agreement was $37,641. On October 26, 2009, Mrs. Kilcrease offered Connie Maxson the position of Director of Member Relations based on 75% of full-time employment for 195 days per year with a daily rate of $550. Total annual salary would equate to $107,250. The equivalent pay for a full-time position using this pay rate would be $143,000. The position of Director of Member Relations was a position similar to that held by Mrs. Bartusek. Mrs. Bartusek's annual salary was $113,091 for a full-time position. Factoring the annualized salary amount of $107,250 and the severance paid to Mrs. Bartusek of $37,641, on an annualized basis, this actually would have cost the organization an additional $144,891.

Margaret Buckton's annual salary was $138,201. Once Mrs. Buckton was terminated, some of her duties were absorbed by Mary Gannon, an attorney for the organization. In the Des Moines Register article dated October 14, 2009, Mrs. Kilcrease stated, "*The women's duties will be absorbed by other employees.*" There was no mention about other employees receiving raises to perform these additional services. Effective January 15, 2010, Mary Gannon's salary increased from $96,704 to $125,000, for an increase of $28,296. The net effect of this termination saved the organization $109,905.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-01B: Compensation: *(Continued)*

On September 30, 2009, Maxine Kilcrease's salary was changed from an annualized amount of $210,000 to $367,157, and applied retroactively to July 1, 2009. Mary Delagardelle's salary was changed from an annualized amount of $126,464 to $165,000 on December 15, 2009, and applied retroactively to July 1, 2009; LeGrande Smith's salary was changed from an annualized amount of $144,200 to $165,000, and applied retroactively to July 1, 2009. In addition, Larry Sigel's contract of $100,000 per year to provide school finance services was terminated. Jackie Black was hired on December 15, 2009 to provide school finance services to the school districts at an annualized salary of $125,000, plus benefits. The following table illustrates on an annualized basis the net effect of the termination of certain employees versus the increase in salaries and new hires for individuals replacing the terminated employees/contractors covering the period from July 1, 2009 to June 30, 2010:

	(Decrease)	Increase	Difference
Jen Albers	**$ (81,000)**	**$ -**	**$ (81,000)**
Margaret Buckton	**(138,201)**	**-**	**(138,201)**
Lisa Bartusek	**(113,091)**	**-**	**(113,091)**
Larry Sigel's Contract	**(100,000)**	**-**	**(100,000)**
Maxine Kilcrease	**-**	**157,157**	**157,157**
Mary Delagardelle	**-**	**38,536**	**38,536**
LeGrande Smith	**-**	**20,800**	**20,800**
Mary Gannon	**-**	**28,296**	**28,296**
Randy Lagerblade	**-**	**95,560**	**95,560**
Connie Maxson	**-**	**107,250**	**107,250**
Jackie Black	**-**	**125,000**	**125,000**
Lisa Bartusek's Severance	**-**	**37,641**	**37,641**
Estimated Benefits at 40%	**(132,917)**	**244,096**	**111,179**
Net effect of salary changes	**$ (565,209)**	**$ 854,336**	**$ 289,127**

Based upon the above table, the combined effect of the termination of Jen Albers, Margaret Buckton, Lisa Bartusek and Larry Sigel's contract, the changes made to other employee's salaries and the additional employees hired, increased the annualized cost to the organization by approximately $289,127. Mrs. Kilcrease claimed to have saved the Organization $400,000 in an article in the Des Moines Register and in comments to the Board. The above table only factors in similar positions and increases in executive salaries. It does not factor into consideration other employees who were terminated or left the organization since July 1, 2009.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-01B: Compensation: ***(Continued)***

Recommendation: The Board should establish formal policies to ensure that the organization complies with the rebuttal presumption requirement of the IRS on highly compensated individuals. The Board should also create a compensation committee comprised of management and certain Board members to review the reasonableness of the salaries of all staff, including independent contractors, of the organization. During the review of the salaries, the committee should take into consideration the NSBA salary survey in addition to other local salary data to determine if the salaries/contracts of employees/contractors are reasonable. This review should be formally documented in the minutes and noted in each employee/contractor file. The committee should then compile a listing of the employees and independent contractors and the salary amounts determined by the committee to be deemed reasonable and submit this list for review and approval by the entire Board. The Board should designate a Board member to contact the payroll service provider to make any necessary changes. It should also be communicated to the payroll provider that no changes to payroll can occur without the designated Board member's signature for approval.

Current Status: Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should establish a process in which any employee leaving the Organization, whether voluntarily or forced, has an exit interview with a designated committee of Board members, separate from the compensation committee. An exit interview should be performed with the employee to determine if there are any issues or concerns within the organization that need to be addressed by the Board.

Current Status: Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should review the severance agreements to ensure the Board understands what benefits the individuals are being offered and any restrictions the agreements place on the organization and/or the individual(s).

Current Status: Finding was repeated in the June 30, 2010 audit.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-02B: Maxine Kilcrease's Compensation:

Maxine Kilcrease began as IASB Executive Director on July 1, 2009 with a base salary of $210,000 ($8,750 per pay period) per her intended employment agreement and the 2010 fiscal year board approved budget. During the initial contract negotiations, Mrs. Albers and Mr. Smith had several conversations with Mrs. Kilcrease regarding her salary and benefits and all parties agreed the salary amount to be $210,000. Mrs. Albers correctly communicated to the payroll service provider a per pay period amount of $8,750 for Mrs. Kilcrease's salary. On July 23, 2009, Brooks Lodden, P.C. staff met with Mrs. Kilcrease and Mr. Schick and specifically discussed the IRS requirements regarding excessive compensation, including the possibility of IRS scrutiny, as well as the potential for negative public perception, in addition to the monetary cost that could be associated with dealing with any issues with the IRS and the public. At this time, we also made Mrs. Kilcrease aware that her salary would be disclosed on the 2009 Form 990 informational tax return filed with the IRS. Mrs. Kilcrease stated that was fine because her salary at AEA 11 was public information and that she was "actually underpaid". The correct salary amount was paid to Mrs. Kilcrease for every pay period from July 1, 2009 through September 15, 2009. On September 17, 2009, Mrs. Kilcrease terminated Mrs. Albers citing budget cuts.

On September 25, 2009, an e-mail was sent to Kevin Schick from Randy Lagerblade questioning what amounts should be grossed up for Mrs. Kilcrease's salary. Mr. Schick responded to Mr. Lagerblade and copied Mrs. Kilcrease on the e-mail and directed Mr. Lagerblade to gross up for all deductions. Based upon Mr. Schick's direction, Mr. Lagerblade communicated the change to the payroll service provider. On the September 30, 2009 payroll date, Mrs. Kilcrease's annualized salary was increased from $210,000 to $367,157, in order to gross up her salary for all benefits and withholdings including all taxes so that the net check deposited into her bank account was $8,750. The salary increase was applied retroactively to July 1, 2009, which resulted in an additional gross amount paid to Mrs. Kilcrease of $32,741 for the period July 1, 2009 to September 15, 2009 on September 30, 2009. Based upon subsequent discussions with Mrs. Albers, she stated that Mrs. Kilcrease never contacted her regarding any discrepancy in her pay.

On October 12, 2009, Brooks Lodden, P.C. staff met with Mrs. Kilcrease to inquire of fraud and any other concerns that Mrs. Kilcrease might have regarding the organization and the financial statements. Mrs. Kilcrease did not mention any issues regarding her salary to Brooks Lodden, P.C. On December 5, 2009, Mrs. Kilcrease sent an e-mail to Mr. Lagerblade requesting the amount of money owed to the organization from her due to incorrect paychecks. On January 5, 2010, Mrs. Kilcrease wrote a memo to Mr. Schick, Mr. Lagerblade, and Mr. Smith stating, "*My interpretation of my compensation is not that everything should be grossed up. My interpretation is that the association would be paying for flex cost, administrative fees, and all Social Security costs and related costs even though Jen's document does clearly say "Payroll Taxes." Thus I believe that my compensation has been too much. I have set aside the money which I believe is overpayment and stand ready to return that to the IASB at any time. It seems important to me to go on record so that there is clarity regarding this issue*." Based upon our review of the spreadsheet prepared by Mrs. Albers, the spreadsheet clearly indicates the amounts are total costs the employer pays on behalf of the employee. It does not state employee payroll taxes or employee's flex cost associated with the employee's salary would be paid by the organization.

On January 11, 2010, Brooks Lodden, P.C. sent a formal letter to Mrs. Kilcrease trying to clarify some of her responses from the October 12, 2009 meeting. A formal letter dated January 22, 2010, was received by Brooks Lodden, P.C. from Mrs. Kilcrease in response to our letter dated January 11, 2010, and again, Mrs. Kilcrease did not mention any issues regarding her payroll to Brooks Lodden, P.C.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-02B: Maxine Kilcrease's Compensation: *(Continued)*

On February 13, 2010, Brooks Lodden, P.C. became aware of Mrs. Kilcrease's salary increase. On February 14, 2010, Brooks Lodden, P.C. was also contacted by a Board member questioning whether an Executive Director can withhold salary information from the Board. Brooks Lodden, P.C. instructed the Board member that in order to comply with IRS regulations related to filing the Form 990 informational tax return, Board members should know what the salaries are to ensure the salaries are properly disclosed on the return.

On February 16, 2010, a whistleblower complaint was filed by an anonymous individual stating, "*Dr. Kilcrease raised an issue of her salary to Jack Hill stating that she negotiated that her salary would be $2xx,xxx net of taxes not gross as she was being paid or that it was her understanding that nothing was to be taken out of her check. Mr. Hill advised Dr. Schick and the Controller, Randy Lagerblade to fix the problem. This change greatly increased the total compensation for the Executive Director. The board should be aware of the full compensation amount. Dr. Kilcrease in the late fall increased the salaries of LeGrande Smith and Mary Delagardelle to $165,000 and made it retroactive to July 1, 2009. Dr. Kilcrease also changed the insurance coverage for herself, LeGrande Smith and Mary Delagardelle from individual to family which also increases compensation. The board should be fully aware of the salary cost of the executives.*"

On February 17, 2010, the Executive Board members had a conference call with Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith, and J. Campbell Helton from Whitfield & Eddy, P.L.C. regarding the February 16, 2010 complaint. Based upon conversations with a board member, when the complaint was being reviewed and the salary issue was discussed, Mrs. Kilcrease allegedly stated that the increases were "*Preposterous*". Furthermore, per the board member, Mrs. Delagardelle and Mr. Smith who were also on the call did not disclose to the Executive Board members that their salaries had increased as the whistleblower complaint claimed. Mrs. Kilcrease, Mr. Smith, and Mr. Helton recommended that the Board not review this complaint as it was filed by a disgruntled individual. A Board member made a comment that it would be a good idea to have another attorney look at the complaint since Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith and Mr. Helton were all named in the complaint. The Board was told that it would cost too much and would not be worth investigating. The Executive Board members agreed that if anything was found to be true in the audit that verified any information in the complaint, that the complaint would be investigated at a later date.

Brooks Lodden, P.C. continued to work with an IASB employee to see if this individual could provide enough information to take to the Board. The individual did not have access to payroll, but did have access to the benefits system in which salary information is used to calculate life insurance. The individual ran a report showing salary increases for Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith, and Ms. Gannon. On March 1, 2010, the individual faxed Brooks Lodden, P.C. a report showing original salary and current salary. On March 2, 2010, this report was given to the Board President to review. On March 3, 2010, Brooks Lodden, P.C. met with the Board President and discussed concerns regarding the payroll increases in addition to problems we were encountering while performing the audit. At this time, the Board President contacted Mr. Lagerblade and instructed him to give Brooks Lodden, P.C. access to the payroll information. On March 3, 2010 Brooks Lodden, P.C. determined that Mrs. Kilcrease, Mrs. Delagardelle, Mr. Smith, and Ms. Gannon had substantial increases in their salaries. This information along with supporting documentation was provided to the Executive Board members on March 3, 2010, and to the entire board on March 10, 2010. Once the Board became aware of Mrs. Kilcrease's increased salary, the Board voted to reduce the Executive Director's salary to her original intended salary of $210,000, effective March 15, 2010. Effective April 2, 2010, the Board terminated Mrs. Kilcrease.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-02B: Maxine Kilcrease's Compensation: ***(Continued)***

Brooks Lodden, P.C. obtained the 2010 NSBA annual salary survey which is a yearly survey compiled by NSBA and distributed to all state school board associations to determine if the salaries paid to individuals are reasonable. The salary information on this survey is based upon salaries as of January 1, 2010. The first line on the survey filled out by IASB shows Mrs. Kilcrease's annual salary to be $367,156. As part of this survey, IASB is required to verify the responses on the survey by having the Executive Director sign the survey. Based upon our review of the survey, it appears that Mrs. Kilcrease signed this survey verifying the information in the survey showing an annualized salary of $367,156. This survey was sent to NSBA on January 22, 2010, and the information in this survey was originally included in the 2010 NSBA salary survey received by Brooks Lodden, P.C. in April 2010, as well as all other state board associations. It showed that Mrs. Kilcrease's salary of $367,156 was the highest paid salary of all state school board associations in the nation.

Based upon our review, it appears there are two contracts related to Mrs. Kilcrease's compensation. It appears as though one contract was signed by her twice, as Executive Director signing for the organization and signing for herself, without any signature from a Board member. The other contract appears to be signed by Mrs. Kilcrease, and what appears to be Jack Hill's (Board President through December 31, 2009) signature. Neither contract is dated nor is there any designation on the contract showing that each page was initialed.

Based upon the original intended salary of $210,000 and as illustrated in the below table, Mrs. Kilcrease appears to have been overpaid by $111,579.46 for the period July 1, 2009 to February 28, 2010, which includes salary, and other amounts paid on her behalf by the employer (Employer's portion of 401(k), Social Security, and Medicare contributions). We also noted one mileage reimbursement in which the mileage appears incorrect increasing the amount overpaid to Mrs. Kilcrease by $126.92. The overpayment of salary to Mrs. Kilcrease would appear to be classified as a loan to Mrs. Kilcrease and would be required to be paid the back to the organization. This loan would then appear to violate Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan.

The following table details the overage on salary, 401(k), and taxes Mrs. Kilcrease received in excess of what should have been paid to her for the period July 1, 2009 to February 28, 2010.

Salary overage	**$101,947.03**
Employer 401(k) overage	**1,833.48**
Employer OASDI overage	**6,320.72**
Employer Medicare overage	**1,478.23**
Subtotal	**$111,579.46**
Amount repaid by Mrs. Kilcrease on 3/3/2010	**(59,192.84)**
Incorrect mileage reimbursement	**126.92**
Total due to IASB	**$ 52,513.54**

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-02B: Maxine Kilcrease's Compensation: *(Continued)*

On October 26, 2009, Mrs. Kilcrease personally purchased chairs on the corporate credit card totaling $1,575.20. This amount was not reimbursed to the organization until December 3, 2009. In addition, from review of Mrs. Kilcrease's corporate credit card statements, we also noted that several expenses did not have adequate documentation and/or credit card receipts did not always have the detailed receipt present. On July 2, 2009, Mrs. Kilcrease signed a corporate credit card usage agreement which stated that corporate credit cards are not to be used for purchases of a personal nature, cash advances, or to circumvent compliance with normal expense requisition methods. The charge for $1,575.20 appears to be in violation of the credit card usage agreement which she signed and may have violated Section 504.834 of the Iowa Code.

It was the organization's policy to allow the Executive Director and Board members to take their spouses on out-of-town travel events. Mrs. Kilcrease took her spouse on occasion to these events; however, the amounts incurred by the organization on behalf of her spouse were not reflected in Mrs. Kilcrease's W-2 compensation. Total amount of compensation that should have been added to Mrs. Kilcrease's W-2 compensation for this issue was $1,029.90.

Recommendation: Since the Board determined the intended salary of $210,000 was the appropriate compensation for Mrs. Kilcrease's position, we recommend the Board take steps to require Mrs. Kilcrease to pay the remaining balance due to the organization in the amount of $52,513.54, plus applicable interest. In addition, the $111,579.46 should be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990.

Current Status: Legal Counsel for the IASB Board has requested Mrs. Kilcrease pay the remaining balance due to the organization. The remaining amount outstanding has not yet been paid to the organization. The Association anticipates Mrs. Kilcrease's compensation will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Current Status: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements. Finding was repeated in the June 30, 2010 audit.

Recommendation: All employment related contracts should be signed by an authorized representative of the Board and each page should be initialed by both the organization and the individual signing the contract to ensure the contract is maintained in its entirety. The personnel files and contracts should be secured and access limited so that information cannot be removed from the files. This will mitigate the likelihood of unauthorized changes being made to the files without formal approval and missing documentation from personnel files.

Current Status: Finding was repeated in the June 30, 2010 audit.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-02B: Maxine Kilcrease's Compensation: *(Continued)*

Recommendation: The Board should establish procedures to ensure that any amounts such as spousal travel paid by the organization on behalf of an individual is properly reflected in a W-2 as compensation. In addition, we recommend that the W-2 be amended to reflect the additional compensation to Mrs. Kilcrease for spousal travel.

Current Status: Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should remove credit cards from all employees and only retain a corporate card to be used for necessary business expenses of the organization. Procedures should be established to include an authorization process in which transactions are approved on the credit card. A form should be prepared and maintained documenting the approval and the business purpose of the transaction. Itemized receipts should be obtained to support all charges on the credit card and given to the accounting department to include as support for the credit card transactions.

Current Status: The IASB Board passed revisions to the Credit Card policy at their meeting on April 25, 2010. Corporate credit cards may only be used for business expenses, charges require an itemized receipt, and any personal or unauthorized charges require reimbursement from the employee within ten working days. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements. Finding was repeated in the June 30, 2010 audit.

IASB-2010-03B: Mary Delagardelle's Compensation:

Mary Delagardelle was the Deputy Executive Director of IASB and Executive Director of Iowa School Boards Foundation (ISBF) prior to the employment of Maxine Kilcrease as IASB Executive Director. Her status under Mrs. Kilcrease remained unchanged from the previous administration. Mrs. Delagardelle's annual compensation per the 2010 fiscal year budget was $126,464. On November 12, 2009, Mrs. Kilcrease approved a salary increase of $38,536 for an annualized salary of $165,000 for the Deputy Executive Director, which took effect on December 15, 2009, and was retroactively applied to July 1, 2009. Approximately one week later at the November 20, 2009 board meeting, Mrs. Kilcrease stated the following, "*It is likely we will need to cut personnel to manage finances.*" According to the minutes, Mrs. Delagardelle was in attendance at this meeting. The total retroactive amount included in the December 15, 2009 payroll for Mrs. Delagardelle was $16,050. Mrs. Kilcrease also provided certain benefits to Mrs. Delagardelle and LeGrande Smith, including short-term disability and full family health insurance benefits. These benefits were not offered to any other employees of the organization. *Organizational policy #203.1R10 states that the IASB Board of Directors, upon recommendation of the Executive Director, shall provide benefits to IASB staff members and regular part-time employees working 20 or more hours weekly. The IASB Board of Directors shall determine the carrier for all insurance/pension programs. Benefits will be reviewed annually*. By offering Mrs. Delagardelle short-term disability and full family benefits, Mrs. Kilcrease appears to have violated the organization's internal policy regarding employee benefits. Once the Board became aware of the increase in Mrs. Delagardelle's salary, the Board voted to reduce the salary to her July 1, 2009 salary approved in the budget, effective March 15, 2010.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-03B: Mary Delagardelle's Compensation: *(Continued)*

Based upon the original intended salary of $126,464, Mrs. Delagardelle appears to have been overpaid by $29,854.26 which includes salary, and amounts paid by the employer (Employer's portion of 401(k), Social Security, and Medicare contributions). The budgeted salary of $126,464 was determined to be reasonable by Ron Rice, the prior Executive Director for the 09-10 budget. There is no additional documentation by Mrs. Kilcrease regarding the additional duties Mrs. Delagardelle would be performing to justify the salary increase. The overpayment of salary to Mrs. Delagardelle would appear to be classified as a loan to Mrs. Delagardelle and would be required to be repaid to the organization. This loan would then appear to violate Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan.

The following table details the overage on salary, 401(k), and taxes Mrs. Delagardelle received in excess of what should have been paid to her for the period July 1, 2009 to March 15, 2010:

Salary overage	**$ 26,039.48**
Employer 401(k) overage	**1,822.76**
Employer OASDI overage	**1,614.45**
Employer Medicare overage	**377.57**
Total due to IASB	**$ 29,854.26**

A memo dated November 12, 2009 from Mrs. Kilcrease to the employee's file regarding her analysis of the salary increase for Mrs. Delagardelle stated the increase was approved by both the Executive Director and Chief Financial Officer. Randy Lagerblade, Controller, also stated that both Mr. Schick and Mr. Smith came into his office and displayed on his whiteboard how the salaries of both Mary Delagardelle and LeGrande Smith were going to change prior to the amounts being paid on December 15, 2009. On January 11, 2010, Brooks Lodden, P.C. met with Mrs. Delagardelle to perform additional fraud inquires. During this meeting, Mrs. Delagardelle did not provide any information regarding any issues with salaries during these inquiries. Also, based upon the discussion under finding IASB-2010-02B, Mrs. Delagardelle did not disclose to the Executive Board that her salary had been increased to $165,000.

Mrs. Delagardelle appears to have used the credit card issued to her by the organization on several occasions throughout the year for personal use. Total amount of personal charges incurred by Mrs. Delagardelle subsequent to June 30, 2009 were $1,219.05. Personal charges were reimbursed to the organization at various times during the year. Mrs. Delagardelle also signed a corporate credit card usage agreement which stated that corporate credit cards are not to be used for purchases of a personal nature, cash advances, or to circumvent compliance with normal expense requisition methods. These charges appear to be in violation of the credit card usage agreement which she signed. These charges may have violated Section 504.834 of the Iowa Code.

Recommendation: The Board should require Mrs. Delagardelle to pay the balance due to the organization in the amount of $29,854.26 plus applicable interest. The $29,854.26 should be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-03B: Mary Delagardelle's Compensation: ***(Continued)***

Current Status: Legal Counsel for the IASB Board has requested Mrs. Delagardelle pay the remaining balance due to the organization. On the advice of Mrs. Delagardelle's counsel, she has chosen not to pay the remaining balance. The Association anticipates Mrs. Delagardelle's compensation will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should report Mrs. Kilcrease, Mr. Schick and Mr. Smith to the IRS on the appropriate form(s) in accordance with IRS regulations as the managers approving the excess benefit transaction and file with the 2009 Form 990.

Current Status: The Association anticipates Mrs. Kilcrease, Mr. Schick and Mr. Smith will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should amend the benefits policy to include wording that does not allow benefits to accrue only to selected employees and ensure employee benefits can only be changed by the Board. All benefits offered by the organization should be discussed by the compensation committee and brought before the Board for approval.

Current Status: Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Current Status: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation. Finding was repeated in the June 30, 2010 audit.

Recommendation: The Board should remove credit cards from all employees and only retain a corporate card to be used for necessary business expenses of the organization. Procedures should be established to include an authorization process in which transactions are approved on the credit card. A form should be prepared and maintained documenting the approval and the business purpose of the transaction. Itemized receipts should be obtained to support the charges on the credit card and given to the accounting department to include as support for the credit card transactions.

Current Status: The IASB Board passed revisions to the Credit Card policy at their meeting on April 25, 2010. Corporate credit cards may only be used for business expenses, charges require an itemized receipt, and any personal or unauthorized charges require reimbursement from the employee within ten working days. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements. Finding was repeated in the June 30, 2010 audit.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-04B: LeGrande Smith's Compensation:

LeGrande Smith was the General Counsel prior to the employment of Maxine Kilcrease as IASB Executive Director. Mr. Smith's annual compensation per the fiscal year 2010 budget was approximately $144,200. On November 12, 2009, Mrs. Kilcrease approved a salary increase of approximately $20,800 for an annualized salary of $165,000 for Mr. Smith, which took effect on December 15, 2009 and was retroactively applied to July 1, 2009. Approximately one week later at the November 20, 2009 board meeting, Mrs. Kilcrease stated the following, *"It is likely we will need to cut personnel to manage finances."* According to the minutes, Mr. Smith was in attendance at this meeting. The total retroactive amount included in the December 15, 2009 payroll for Mr. Smith was $8,717. The overpayment of salary to Mr. Smith would appear to be classified as a loan to Mr. Smith and would be required to be paid back to the organization. This loan would then appear to violate Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan. Once the Board became aware of the increase in Mr. Smith's salary, the Board voted to reduce the salary to his July 1, 2009 salary approved in the budget, effective March 15, 2010.

The following table details the overage on salary, 401(k), and taxes Mr. Smith received in excess of what should have been paid to him for the period July 1, 2009 to March 15, 2010:

Salary overage	**$ 13,294.21**
Employer 401(k) overage	**930.59**
Employer OASDI overage	**824.24**
Employer Medicare overage	**192.77**
Subtotal	**$ 15,241.81**
Amount repaid by Mr. Smith on 6/15/2010	**(9,000.00)**
Total owed to IASB	**$ 6,241.81**

A memo dated November 12, 2009 from Mrs. Kilcrease to the employee's file regarding her analysis of the increase in salary of Mr. Smith stated the increase in salary was approved by the Executive Director, Chief Financial Officer, and Deputy Executive Director. Mr. Lagerblade also stated that both Mr. Schick and Mr. Smith came into his office and displayed on his whiteboard how the salaries of both Mrs. Delagardelle and Mr. Smith were going to change prior to the amounts being paid on December 15, 2009. Mrs. Kilcrease also provided special benefits to Mrs. Delagardelle and Mr. Smith, including short-term disability and full family health insurance benefits. These benefits were not offered to any other employees of the organization. *Organizational policy #203.1R10 states that the IASB Board of Directors, upon recommendation of the Executive Director, shall provide benefits to IASB staff members and regular part-time employees working 20 or more hours weekly. The IASB Board of Directors shall determine the carrier for all insurance/pension programs. Benefits will be reviewed annually*. By offering Mr. Smith short-term disability and full family benefits, Mrs. Kilcrease appears to have violated the organization's internal policy regarding employee benefits. On January 13, 2010, Brooks Lodden, P.C. met with Mr. Smith to perform additional fraud inquires. During this meeting, Mr. Smith did not provide any information regarding any issues with salaries during these inquires. Also, based upon the discussion under finding IASB-2010-02B, Mr. Smith did not disclose to the Executive Board that his salary had been increased to $165,000.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-04B: LeGrande Smith's Compensation: *(Continued)*

In June 2009, Brooks Lodden, P.C. staff met with LeGrande Smith and specifically discussed the IRS requirements on excessive compensation, including the possibility of IRS scrutiny. Furthermore, we discussed the potential for negative public perception in addition to the monetary cost that could be associated with dealing with any issues in regards to the IRS and the public.

Recommendation: The Board should require Mr. Smith to pay the remaining balance due to the organization in the amount of $6,241.81, plus applicable interest. The $15,241.81 original overage should be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990.

Current Status: Mr. Smith repaid $9,000 as of June 15, 2010 and the remaining balance plus interest in the amount of $6,318.69 on August 6, 2010. The Association anticipates Mr. Smith's compensation will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should report Mrs. Kilcrease, Mr. Schick, Mrs. Delagardelle and Mr. Smith to the IRS on the appropriate form(s) in accordance with IRS regulations as the managers approving the excess benefit transaction and file with the 2009 Form 990.

Current Status: The Association anticipates Mrs. Kilcrease, Mr. Schick, Mrs. Delagardelle, and Mr. Smith will be reported to the IRS on the appropriate form(s) in accordance with IRS regulations and filed with the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should amend the benefits policy to include wording that does not allow benefits to accrue only to selected employees and ensure employee benefits can only be changed by the Board. All benefits offered by the organization should be discussed by the compensation committee and brought before the Board for approval.

Current Status: Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Current Status: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation. Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-05B: Mary Gannon's Compensation:

Mary Gannon serves as an attorney for the organization. Ms. Gannon's annual compensation per the FY 2010 budget was approximately $96,704. On September 17, 2009, the department head of the legislative and lobbying department for the organization was terminated by Mrs. Kilcrease. Some of these duties performed by this individual along with some of the duties performed by Mrs. Bartusek were absorbed by Ms. Gannon. On January 15, 2010, the Executive Director approved a salary increase of $28,296 for an annualized salary of $125,000. The salary increase was effective starting with the January 15, 2010 pay period. Once the Board became aware of the increase in Ms. Gannon's salary, the Board voted to reduce the salary to her July 1, 2009 salary approved in the budget, effective March 15, 2010.

Ms. Gannon's salary was initially based upon the $7.5 million and above category in the *Survey of Salaries and Benefits Provided by State School Boards Associations 2009*. Comparing the initial salary of $96,704 that was approved in the 09-10 budget to the 2009 survey, we found the salary amount of $96,704 was between the median and low categories and was within an acceptable level of compensation. According to the 2010 survey, the $96,704 would be in between the highest and median categories and within an acceptable level of compensation. Compared to the 2010 survey, a salary of $125,000 would also fall between the high and median categories and would be within an acceptable level of compensation.

Recommendation: No additional action is necessary at this time on this individual. The Board voted to reduce the salary to the fiscal year 09-10 budgeted amount. Even with the increase to $125,000, this was still an acceptable level of compensation for the duties being performed by this individual. Even though the salary range was within acceptable limits, we would caution the Board on re-evaluating this position, since any increases would more than likely not be accepted by the public and members.

Current Status: The IASB Board reduced Ms. Gannon's salary to the July 1, 2009 level effective March 31, 2010. Any salary increases to this position would require board approval under the revised Salary and Wages policy. Finding was repeated in the June 30, 2010 audit report.

Finding: IASB-2010-06B: Connie Maxson's Compensation:

Connie Maxson began working for the organization as the Director of Member Relations with an annual salary of $107,250 on January 1, 2010. According to a letter of offer by the Executive Director, the position offered was 75% of a full-time position.

The Director of Member Relation's salary was initially based upon the *Survey of Salaries and Benefits Provided by State School Boards Associations 2009.* Comparing the initial salary of $107,250 to the 2009 survey, we found the salary amount of $107,250 exceeded the high category for a full-time position in the nation. According to the 2010 survey, the $107,250 would be in between the highest and average categories, but closer to the high end of the survey. Taking into consideration the budget classification in the 2010 survey for the organization, it is unlikely that the salary should be on the high end of the salary category, since the comparables used are based upon similar organizations around the nation and the high category would more than likely include larger states, such as California, Texas, and New York. In addition, both the 2009 and 2010 salary surveys were based upon full-time positions. Currently, the Director of Member Relations is only working 75%. Based upon the reduced amount of time spent in the position, it would appear that 25% of the amount paid to the Director of Member Relations does not fall within the industry standards.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

Finding: IASB-2010-06B: Connie Maxson's Compensation(*Continued*):

Recommendation: The Board should review this position to determine if the *full-time* salary amount is appropriate. If the amount is deemed to be appropriate for the position on a *full-time basis*, the Board should immediately reduce the total salary amount paid to the individual to account for the *part-time* status of the employee.

Current Status: The IASB Board evaluated and eliminated this position effective June 30, 2010. Finding was repeated in the June 30, 2010 audit report.

Finding IASB-2010-07B: Jackie Black's Compensation:

Jackie Black began working for the organization as the Director of School Finance with an annual salary of $125,000. The Director of School Finance's salary was initially based upon the *Survey of Salaries and Benefits Provided by State School Boards Associations 2009*. Comparing the initial salary of $125,000 to the 2009 survey, we found the salary amount of $125,000 exceeded the high category for a full-time position. Based upon the review of the organization's payroll reports, it was determined that this amount was related to the organization's own employee for the 2009 data. The 2010 survey did not include any individual in the "Other-School Finance" category; however, if the Director of School Finance would have been included on the survey, the amount would have shown $125,000. Brooks Lodden, P.C. called NSBA and explained the position of Director of School Finance; however, NSBA was unaware of any position in the survey which matched the job description of the Director of School Finance. The prior Director of School Finance's duties also included presenting the organization's Convention "School Finance Boot Camp," the Iowa Superintendents Finance and Leadership Consortium (ISFLC) workshops, and the organization's annual fiscal conference. Based upon our review of the current job description for the Director of School Finance, the description has specifically excluded the above duties from the responsibility of the current Director of School Finance. It would appear the current rate paid to the Director of School Finance is on the high end for duties to be performed when compared to the prior Director of School Finance.

Recommendation: The Board should review the duties performed by the prior Director of School Finance and compare these duties to the job description and duties performed by the current Director of School Finance. Based upon this review, the Board should estimate the time required for the additional duties performed, if any, and adjust the compensation level accordingly.

Current Status: Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-08B: Contracted Services:

Kevin Schick began as interim CFO on April 13, 2009 for IASB. He was an independent contractor hired through a placement agency at rate of $115/hour from April 13 through October 31, 2009. The annual amount at $115/hour would approximate $239,200 based upon a 2,080 hour work year. The total amount paid for contracted CFO services was $114,598 for 996.50 hours of work. In addition to this amount, another individual also billed for 97 hours @ $115/ hour for a total of $11,155. Brooks Lodden, P.C. obtained the invoices and noted there was no detail on the invoices for the amount charged to the organization. The attorneys for IASB requested the backup supporting the invoices, but the only information provided to the attorneys was a timesheet by day that only listed the total number of hours. No detail of the work performed by these individuals could be provided for our review.

Recommendation: The Board should request from these individuals a detailed account of the duties they performed for IASB and LGS while in the service of the placement agency. This information is necessary to determine whether or not the amount charged for services to the organization are excessive. If the information is received, the Board should review the detail to determine if the description is reasonable for the services which were rendered. If the information is not received, the Board should request a refund of the amounts that cannot be substantiated in detail and report this amount to IRS on the appropriate form(s) in accordance with IRS regulations as an excess benefit transaction and file with the 2009 Form 990.

Current Status: The IASB Board has requested and outside counsel prepared a letter requesting a detailed account of the duties performed for IASB and LGS. No additional information has been received; the Association anticipates the amounts will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should establish policies in which independent contractor agreements are reviewed by the compensation committee to determine if the compensation is reasonable for the service being provided to the organization. These contracts should then be submitted to the Board to approve and be documented in the minutes as well as retained in the contractor's file.

Current Status: Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-09B: KSL Consulting, LLC Contracted Services:

On November 1, 2009, Kevin Schick began using his own company, KSL Consulting, LLC, and charged the organization for services at a gross rate of $450/hour “discounted” via an amount “contributed” to a net of $100/hour. The annual amount at $100/hour would be $208,000 based upon a 2,080 hour work year. The total amount paid for contracted CFO services through KSL Consulting, LLC was $41,600 (416 hours @ $100/hr). No signed contract between the organization and KSL Consulting, LLC regarding the duties and responsibilities that Mr. Schick was to perform for the organization could be located for Brooks Lodden, P.C. to review, nor was approval of the contract noted in the board minutes. In addition, based upon our review of the invoices from KSL Consulting, LLC, there is no itemized accounting regarding the number of hours per day and services provided to the organization.

According to IASB credit card statements, Mr. Schick’s departure date for his vacation to Bora Bora was December 27, 2009 with a return date of January 3, 2010. For the period December 28-31, 2009, Mr. Schick billed IASB for 8 hours of work. This invoice was approved by Mrs. Kilcrease. On June 3, 2010, Mr. Schick testified before the Iowa Legislative Oversight Committee that his vacation to Bora Bora was personal in nature and he did not bill any amounts to the organization during his vacation. The total net amount using a rate of $100/hour would be an overbilling of $800 to IASB. Mr. Schick also billed for 40 hours of service between January 1-9, 2010. Without the individual detail on the services Mr. Schick provided to the organization during this time, it cannot be determined at this time whether or not additional repayment is necessary.

Mr. Schick has presented himself as an independent contractor; however, his responsibilities and duties mirror the activities of an employee rather than an independent contractor. Mr. Schick was given the title of Chief Financial Officer, included on the Executive Council, given signature authority on all bank accounts, given access to the accounting system, given a corporate credit card, elected to be President of Local Government Services on September 16, 2009, and made management decisions without approval from the Executive Director or the Board. All of these duties were similar to duties performed by the prior CFO, who was classified as an employee.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-09B: KSL Consulting, LLC Contracted Services *(Continued)*

The following table shows the detail of the charges invoiced and paid to KSL Consulting, LLC:

Billing Period:	**Hours**	**Rate**	**Amount**
November 1-7, 2009	40 hours	$100/hr	$ 4,000
November 8-14, 2009	40 hours	$100/hr	4,000
Total for invoice #1134	80 hours		$ 8,000
November 15-21, 2009	40 hours	$450/hr	$ 18,000
November 22-28, 2009	32 hours	$450/hr	14,400
Donation (Effective rate $100/hr)	72 hours	$350/hr	(25,200)
Total for invoice #1137	72 hours		$ 7,200
November 29-December 6, 2009	32 hours	$450/hr	$ 14,400
December 7-13, 2009	40 hours	$450/hr	18,000
Donation (Effective rate $100/hr)	72 hours	$350/hr	(25,200)
Total for invoice #1139	72 hours		$ 7,200
December 14-20, 2009	40 hours	$450/hr	$ 18,000
December 21-27, 2009	24 hours	$450/hr	10,800
Donation (Effective rate $100/hr)	64 hours	$350/hr	(22,400)
Total for invoice #1147	64 hours		$ 6,400
December 28-31, 2009	8 hours	$450/hr	$ 3,600
January 1-9, 2010	40 hours	$450/hr	18,000
January 10-21, 2010	80 hours	$450/hr	36,000
Donation (Effective rate $100/hr)	128 hours	$350/hr	(44,800)
Total for invoice #1305	128 hours		$ 12,800
Grand Total	416 hours	$100/hr	$ 41,600

Recommendation: The Board should request from Mr. Schick a detailed account of the duties he performed for the organization. This information is necessary to determine whether or not the compensation paid for services provided to the organization is excessive. If the information is received, the Board should review the detail to determine if the description is reasonable for the services which were rendered. If the information is not received, the Board should request a refund of the amounts that cannot be substantiated in detail and report this amount to the IRS on the appropriate form(s) in accordance with IRS regulations as an excess benefit transaction and file with the 2009 Form 990.

Current Status: A letter was sent by outside counsel requesting a detailed account of the duties Mr. Schick performed for the organization. No information has been provided by Mr. Schick. The amounts will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-09B: KSL Consulting, LLC Contracted Services *(Continued)*

Recommendation: The Board should establish policies in which independent contractor agreements are reviewed by the compensation committee to determine if the compensation is reasonable for the service being provided to the organization. These contracts should then be submitted to the Board to approve and be documented in the minutes as well as retained in the contractor's file.

Current Status: Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should request Mr. Schick pay the organization $800 for the overbilling on time billed to the organization between the dates December 28-31, 2009, and any other amounts, as identified, after review of detail provided by Mr. Schick.

Current Status: A letter requesting a refund of $800 was sent to Mr. Schick, however, no payment has been received by the organization. The Association anticipates the amount will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should establish procedures to evaluate the classification of independent contractors to determine whether or not the contractors should be classified as an employee versus an independent contractor. This determination should also be retained and documented in the contractor's file.

Current Status: Finding was repeated in the June 30, 2010 audit report.

IASB-2010-10B: Randy Lagerblade Contracted Services

On September 18, 2009, Randy Lagerblade was contracted to provide interim financial services to the organization. Mr. Lagerblade provided these services from September 18, 2009 thru October 15, 2009 until he became an employee of the organization on October 16, 2009. Mr. Lagerblade charged the organization $17,034 (170.34 hours @ $100/hr). No signed contract between the organization and Mr. Lagerblade regarding the duties and responsibilities that Mr. Lagerblade was to perform for the organization could be located for Brooks Lodden, P.C. to review, nor was approval of the contract noted in the board minutes. In addition, based upon our review of the invoices submitted for payment, there is no itemized accounting regarding the number of hours per day and services provided to the organization.

Recommendation: The Board should request from Mr. Lagerblade a detailed account of the duties he performed for the organization. This information is necessary to determine whether or not the compensation paid for services provided to the organization is excessive. If the information is received, the Board should review the detail to determine if the description is reasonable for the services which were rendered. If the information is not received, the Board should request a refund of the amounts that cannot be substantiated in detail and report this amount to the IRS on the appropriate form(s) in accordance with IRS regulations as an excess benefit transaction and file with the 2009 Form 990.

Current Status: The IASB Board requested and outside counsel has prepared a letter requesting a detailed account of the duties Mr. Lagerblade performed for the organization. A detailed accounting of the hours along with descriptions of the services provided by Mr. Lagerblade have been provided to the organization. Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-11B: Kevin Schick's Corporate Credit Card:

On September 30, 2009, Maxine Kilcrease approved Kevin Schick to be added to the IASB corporate credit card account with a credit limit of $10,000. Based upon the information provided from the bank, it appears Mr. Schick's credit card was set up under the corporate account of the organization. Mr. Schick used this credit card to purchase a trip to Bora Bora for himself and a guest in addition to using the card for other apparent personal charges. The total amount of apparent personal charges on the credit card related to the Bora Bora trip was $8,708.19. Total expenses that do not have supporting documentation were $10,521.23 including the trip to Bora Bora. Credit card expenses dated December 26, 2009 and prior were paid on several dates by the organization with the last date being on January 28, 2010. On February 5, 2010, Mr. Schick repaid $7,500 via a cashiers check to the organization, which was deposited on February 9, 2010. Expenses incurred on the credit card from January 2, 2010 through January 22, 2010 were paid on March 12, 2010 by the organization. On April 28, 2010, Mr. Schick paid $2,100 to the organization through his attorney's trust account. Total amount repaid to the organization was $9,600. The remaining balance in which receipts are not present and therefore a determination can not be made as to the business or personal nature is $1,216.61.

On January 13, 2010, Mr. Lagerblade e-mailed Mr. Schick and requested Mr. Schick to turn in receipts related to the credit card. Brooks Lodden, P.C. inquired of Mr. Lagerblade if Mr. Schick had notified him of the personal charges on the credit card. Mr. Lagerblade stated that Mr. Schick did not notify him of the personal charges that were charged on the credit card.

Charging personal expenses on the IASB corporate credit card could constitute a loan by the organization to Mr. Schick. Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan. Mr. Schick served as the Chief Financial Officer of the organization and would be deemed to be classified as an officer of the organization. By charging personal expenses on the organization's credit card, Mr. Schick may have violated this statute.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS *(Continued)*
For the Year Ended June 30, 2010

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-11B: Kevin Schick's Corporate Credit Card: *(Continued)*

The following table summarizes Mr. Schick's transactions on his corporate credit card account:

Transaction Date	Memo	Amount	Bora-Bora Trip	Receipt Present	Business/ Personal Expense
10/17/09	Lowes	$ 14.70	-	Yes	Business
10/21/09	Lowes	142.07	-	Yes	Business
10/26/09	Rock Bottom	31.49	-	No	No determination made
10/29/09	Annual Membership	15.00	-	N/A	Business
11/01/09	Amazon.com	32.12	-	No	No determination made
11/07/09	Amazon Mktplace	8.49	-	No	No determination made
11/05/09	La Bamba Mexican Rest	24.67	-	No	No determination made
11/09/09	Centro Rest	31.21	-	No	No determination made
11/16/09	Oriental Trading Co	177.19	-	Yes	Business
11/17/09	Noah's Ark Ristorante	50.99	-	No	No determination made
11/19/09	Marriott DSM	6.00	-	No	No determination made
12/03/09	Amazon MktPlace	41.85	-	No	No determination made
12/06/09	Halls Crown Center (KC)	107.73	-	No	No determination made
12/07/09	Asurion Wireless Insurance	50.00	-	No	No determination made
12/08/09	RedBox DVD Rental	3.18	-	No	No determination made
12/11/09	RedBox DVD Rental	6.36	-	No	No determination made
12/15/09	Kohl's	63.64	-	No	No determination made
12/15/09	TJMaxx	172.74	-	No	No determination made
12/17/09	Marriott WDSM	11.49	-	No	No determination made
12/18/09	Jimmy's American Café	39.19	-	No	No determination made
12/19/09	TJMaxx	42.38	-	No	No determination made
12/22/09	Amazon MktPlace	5.78	-	No	No determination made
12/21/09	Halls Crown Center(KC)	86.00	-	No	No determination made
12/22/09	Amazon.com	121.07	-	No	No determination made
12/21/09	Centro Restaurant	95.45	-	No	No determination made
12/23/09	Bed Bath & Beyond	33.84	-	No	No determination made
12/27/09	COA Airline Taxes & Fees	50.00	50.00	No	Personal
12/27/09	COA Airline Taxes & Fees	70.00	70.00	No	Personal
12/23/09	Marshalls	101.95		No	No determination made
12/26/09	Continental-Kevin Schick. Departure Date 1/3/2010	297.70	297.70	No	Personal
12/26/09	Continental-Ryan English Departure Date 1/3/2010	297.70	297.70	No	Personal
12/26/09	Southwest Air-Kevin Schick Departure Date 12/27/09	428.70	428.70	No	Personal

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-11B: Kevin Schick's Corporate Credit Card: *(Continued)*

The following table summarizes the transactions on this corporate credit card account: *(Continued)*

Transaction Date	Memo	Amount	Bora-Bora Trip	Receipt Present	Business/ Personal Expense
12/26/09	Southwest Air-Ryan English Departure Date 12/27/09.	$ 428.70	$ 428.70	No	Personal
12/26/09	Air Tahiti-Ryan English Departure Date 12/27/09	2,154.63	2,154.63	No	Personal
12/26/09	Air Tahiti-Kevin Schick Departure Date 12/27/09	2,154.63	2,154.63	No	Personal
01/02/10	SVC Chg-ISA Fee	27.98	27.98	No	Personal
01/02/10	Saint Regis Hotel	2,798.15	2,798.15	No	Personal
01/08/10	Amazon MktPlace	107.00	-	No	No determination made
01/11/10	Office Max	37.07	-	No	No determination made
01/12/10	PayPal	210.94	-	No	No determination made
01/12/10	Shop Seating	229.00	-	No	No determination made
01/13/10	Amazon MktPlace	108.00	-	No	No determination made
01/14/10	The Big Steer	46.48	-	No	No determination made
01/13/10	Franklin Covey	92.14	-	No	Business
01/16/10	Mister Car Wash	29.07	-	No	No determination made
01/15/10	Tandoor Authentic Indian	37.76	-	No	No determination made
01/14/10	Irish Democrat	41.18	-	No	Business
01/16/10	Kum & Go	57.29	-	No	No determination made
01/18/10	Centro Restaurant	39.90	-	No	No determination made
01/22/10	La Hacienda	23.29	-	No	No determination made
Totals		$ 11,283.89	$ 8,708.19		
Payment 02/05/10		(7,500.00)			
Payment 04/28/10		(2,100.00)			
Business expense		(467.28)			
Total remaining unreimbursed expenses		$ 1,216.61			

In order to qualify as an accountable plan, where the expenses would not be considered compensation to the employee, the employer's reimbursement arrangement must meet all of the following requirements:

5. The employee must have incurred the expenses while performing services as an employee and the expenses must have a business connection.
6. The employer generally must reimburse actual expenses [in some situations, the employer may use a per diem rate for the reimbursement (e.g., for lodging and meals and incidentals)].
7. The employee must make an adequate accounting of the expenses to the employer within a reasonable period of time after the expenditure has been incurred.
8. If the employer makes an advance to employees in anticipation of future expenses, (a) the advance must be made within a reasonable period of time of the date the expenses are expected, (b) the amount of the advance must be reasonably expected to equal the future expenses, and (c) the employee must be required to return any unused portion of the advance within a reasonable period of time.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-11B: Kevin Schick's Corporate Credit Card: *(Continued)*

A nonaccountable plan is a reimbursement arrangement that fails one or more of the four requirements of an accountable plan as noted above. Reimbursements paid under a nonaccountable plan are added to the Form W-2 wages of an employee or in the case of a contactor a Form 1099-MISC would be filed; therefore, not requiring employees or contractors to account for the expenses would require these unreimbursed expenses to be treated as compensation to the individual.

Recommendation: The Board should require Mr. Schick to provide documentation on all expenses charged on the credit card. Any receipts which cannot be substantiated as business expenses should be reimbursed back to the organization. Total amount of unsubstantiated expenses remaining unpaid was $1,216.61.

Current Status: The IASB Board's outside counsel has prepared a letter requesting documentation on all expenses charged on the credit card that has not been reimbursed. This information has not been provided by Mr. Schick to the organization. The Association anticipates the amounts will be reported to the IRS on the appropriate form(s) when filing the 2009 Form 990, which is expected to be filed with the IRS on April 15, 2011. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Current Status: The Financial Condition and Activities policy was revised on July 14, 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should remove credit cards from all employees and only retain a corporate card to be used for necessary business expenses of the organization. Procedures should be established to include an authorization process in which a transaction is approved before the charge is made to the credit card. A formal form should be prepared and maintained documenting the approval and the business purpose of the transaction. Itemized receipts should be obtained to support all charges on the credit card and given to the accounting department to include as support for the credit card transactions.

Current Status: The IASB Board passed revisions to the Credit Card policy at their meeting on April 25, 2010. Corporate credit cards may only be used for business expenses, charges require an itemized receipt, and any personal or unauthorized charges require reimbursement from the employee within ten working days. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements. Finding was repeated in the June 30, 2010 audit report.

<u>PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT</u> *(Continued)*

IASB-2010-12B: <u>Unauthorized Transfers:</u>

On September 21, 2009, it appears Kevin Schick made an unauthorized transfer from the Iowa Council of School Board Attorneys (ICSBA) account in the amount of $10,000 to Local Government Services (LGS). ICSBA is designated as an agency fund in which IASB manages on behalf of ICSBA. Mr. Schick did not have the authority to make this transfer nor did the ICSBA committee approve Mr. Schick to be an authorized signor on the account. Brooks Lodden, P.C. obtained the signature cards from the bank and noted the signature cards were changed on September 21, 2009 to include Maxine Kilcrease, Kevin Schick, and Mary Delagardelle. No banking resolution authorizing this change on September 21, 2009 was approved by the Board or ICSBA, nor were proper controls established to oversee the duties performed by Mr. Schick. Payment was made to ICSBA in the amount of $10,000 on June 2, 2010.

On December 1, 2009, it appears Kevin Schick made unauthorized transfers from the Iowa School Employee Benefit Association (ISEBA) account in the amount of $500,000 to the Iowa Association of School Boards and LGS. Mr. Schick did not have the authority to make this transfer nor did the ISEBA Board approve Mr. Schick to be an authorized signor on the account. Brooks Lodden, P.C. obtained the signature cards from the bank and noted the signature cards were changed on September 21, 2009 to include Maxine Kilcrease, Kevin Schick, and Mary Delagardelle. No banking resolution authorizing this change on September 21, 2009 was approved by the Board; nor were proper controls established to oversee the duties performed by Mr. Schick. Outside legal counsel researched whether or not ISEBA could loan funds to either the Iowa Association of School Boards or to LGS. Based upon their research of the Iowa Constitution Article VII, this transfer would not be permissible under the Iowa Code. The balance remaining to be repaid as of June 1, 2010 to ISEBA was $184,211.

<u>Recommendation:</u> The Board should establish controls over authorization and the transfer of funds from the organization's bank account.

<u>Current Status:</u> The IASB Board passed an Internal Control Resolution at their meeting on June 18, 2010, requiring signature approval of at least two of the following five individuals to approve transfers of funds into or out of the Association's accounts: President, Executive Director, Chief Financial Officer, Treasurer, and Leadership Development Director.

The IASB Board passed a Banking Resolution at their meeting on May 13, 2010, requiring signature approval of Veronica Stalker, Executive Director, or Harry Heiligenthal, Director of Leadership Development, to sign checks or withdrawal orders against IASB accounts.

These resolutions and any updates to these resolutions will be documented in the minutes and with signature approval. Finding was repeated in the June 30, 2010 audit report.

<u>Recommendation:</u> The Board should establish procedures to ensure a resolution is formally adopted before any personnel are added or removed from the bank signatory cards.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-12B: Unauthorized Transfers: *(Continued)*

Current Status: The IASB Board passed an Internal Control Resolution at their meeting on June 18, 2010, requiring signature approval of at least two of the following five individuals to approve transfers of funds into or out of the Association's accounts: President, Executive Director, Chief Financial Officer, Treasurer, and Leadership Development Director.

The IASB Board passed a Banking Resolution at their meeting on May 13, 2010, requiring signature approval of Veronica Stalker, Executive Director, or Harry Heiligenthal, Director of Leadership Development, to sign checks or withdrawal orders against IASB accounts.

These resolutions and any updates to these resolutions will be documented in the minutes and with signature approval. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should report the unauthorized transfers to the proper authorities for investigation.

Current Status: The unauthorized transfers have been reported to the proper authorities for investigation. Finding was repeated in the June 30, 2010 audit report.

Recommendation: The Board should work with the ICSBA Committee to repay the $10,000 and ISEBA to repay the remaining balance due of $184,211.

Current Status: The $10,000 was repaid to the Iowa Council of School Board Attorneys (ICSBA) on June 2, 2010. The Board repaid the Iowa Schools Employee Benefits Association (ISEBA) the balance owed on August 31, 2010. Finding was repeated in the June 30, 2010 audit report.

IASB-2010-13B: Sale of PaySchools:

During the IASB Executive Committee Meeting on October 14, 2009, Mr. Schick presented information to the Executive Board regarding the possible sale of the PaySchools program to eBay. Mr. Schick stated this is a tentative offer as there are issues that need to be worked out with the contracts.

In the LGS board minutes from the October 26, 2009 meeting stated, *Kevin said he met with eBay (PayPal) representatives and they made an offer to purchase PaySchools for $1.5 million with a down payment of $500,000. The balance of the purchase would be paid January 1.* In addition, the minutes also stated that *Kevin noted he had valuation reports completed for PaySchools. Those reports show that PaySchools has a negative value based on the outstanding merchant account issue with Visa*. Brooks Lodden, P.C. requested the valuation reports and any payments made to any valuation experts; however, no information could be provided to support any valuations performed on the PaySchools program.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-13B: Sale of PaySchools: *(Continued)*

At the December 4, 2009 LGS board meeting, *Maxine Kilcrease shared, We have made a deal with eBay for the purchase of PaySchools; LGS can accept their offer or not*. Also at this meeting LeGrande Smith noted that eBay has countersued Jon Muller and Pat Ricci, implying that these individuals were suing eBay. Brooks Lodden, P.C. interviewed both Mr. Muller and Mr. Ricci regarding the eBay lawsuit. Both individuals stated that they were not suing eBay and were very surprised by this accusation. Mr. Smith also provided details regarding the PaySchools resolution noting that approval of the resolution will allow the staff to begin preparing documentation for the transfer. Mr. Smith stated the transfer will include all assets and liabilities of the LGS Corporation. Mr. Schick noted the target date for the transfer to occur was January 15, 2010. Mr. Schick stated that the entire transfer process could take up to six months. He also noted that the employees currently working for PaySchools will have jobs after this transfer is complete.

On January 8, 2010, previous outside counsel sent a letter to the Wells Fargo Law Department which stated that, "*After another considerable period of time, a potential buyer has been found. Due to the confidential nature of the discussions I am not at liberty to divulge the buyer's identity; however, I can report that the parties have engaged in due diligence (which is ongoing), and an understanding has been agreed going forward. I can also report that the buyer is a large, sophisticated party that is aware of VISA's rules and procedures. Because of the nature of the PaySchools business (school year, public bodies, fiscal year endings) a closing date goal has been set for July 1, 2010."* This letter provided to Wells Fargo appears to give the impression the previous outside counsel was aware there was a deal between the organization and eBay to sell the PaySchools program; however, no documentation could be provided to Brooks Lodden, P.C. regarding any informal or formal contracts, documents, or discussions on this sale other than the items noted by Mrs. Kilcrease and Mr. Schick in both the IASB and LGS board minutes. On January 12, 2010, a legal letter was prepared to Perkins & Coie and signed by Mrs. Kilcrease and given to Brooks Lodden, P.C. to confirm any threatened or pending lawsuits. Perkins & Coie is based out of San Francisco, California and was the firm that was allegedly being used by Mr. Schick to help work with the organization on the sale of PaySchools to eBay. Brooks Lodden, P.C. searched for any payments or invoices recorded in the accounting system to determine if any invoices were submitted by this firm to the organization for payment. Based upon our review, no invoices were found for any service this legal firm provided to the organization.

In the January 19, 2010 IASB board minutes, Mrs. Kilcrease noted that at the last board meeting the organization tabled the PaySchools presentation due to the lawsuit filed against eBay (i.e. Jon Muller and Pat Ricci). Mr. Schick said with the pending lawsuit that eBay would not advance the $1 million; and therefore, a $1 million line of credit was set up with Bankers Trust. As of January 19, 2010, Mr. Schick stated that $750,000 of the line of credit has been consumed. Brooks Lodden, P.C. spoke with the bank regarding this line of credit and the bank disclosed that they had never entered into a line of credit agreement with the organization nor were there any discussions with Mrs. Kilcrease or Mr. Schick regarding obtaining a line of credit. In the January 19, 2010 LGS board minutes, Mr. Schick stated the sale of PaySchools to eBay should be completed within the next 2-3 weeks. IASB will receive $1.5 million plus a 10-year royalty stream of 85 percent of future revenues.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-13B: Sale of PaySchools: *(Continued)*

On January 21, 2010, an employee filed a whistleblower complaint alleging that the sale of PaySchools to eBay was not true and that Mr. Schick was not forthcoming with information to the staff and Board. An investigation was performed by the previous outside counsel. The preliminary report to the Executive Board showed that based upon individuals contacted at eBay, there was never a deal made with eBay regarding the sale of the PaySchools program, nor was eBay involved in any discussions or due diligence related to the purchase of PaySchools as Mrs. Kilcrease, Mrs. Delagardelle, Mr. Schick, and Mr. Smith had presented to the Board. It appears the outside counsel performed the investigation of the PaySchools whistleblower complaint against Mr. Schick, as well as provided legal services to Mr. Schick. In addition, as noted above in the January 8, 2010 letter from previous outside counsel to Wells Fargo, the previous outside counsel appeared to be intimately involved in the eBay deal. The investigation of the PaySchools sale did not include all parties involved in the alleged potential sale of PaySchools.

On January 22, 2010, in a meeting with Mr. Schick, Mr. Smith, Mrs. Delagardelle, representatives from Brooks Lodden, P.C., representatives from the State Auditor's Office, and two board members, Mr. Schick stated that the PaySchools program had a "backdoor" written into the program that allows for the possibility of money to be diverted and this was found by an eBay reviewer during the due diligence process. Brooks Lodden, P.C. interviewed the PaySchools programmer as well as another IT staff member regarding the backdoor issue and what the eBay reviewer found. Both of these individuals stated that they were not aware of any eBay reviewer performing any type of due diligence. In addition, they were not aware of any "backdoor" feature that would allow access to the program from the outside. It does not appear that any due diligence was performed on the sale of the PaySchools program and the Board appears to have been misled by Mrs. Kilcrease, Mr. Schick, Mrs. Delagardelle, and Mr. Smith. No financial information could have been relied upon to make an accurate determination of whether it was in the best interest of the organization to sell the PaySchools program as financial statements had not been completed. No formal analysis was given to the Board by Mr. Schick of the potential loss or profitability of the program, nor was there any type of formal valuation of the PaySchools program provided to the Board by Mr. Schick or Mrs. Kilcrease to determine if the alleged $1.5 million purchase price was reasonable.

Recommendation: The Board should establish procedures to ensure that any potential future sales of major assets require a formal analysis of the program, including potential loss or profitability. Any potential purchaser of the asset/program should sign a non-disclosure agreement before any information is provided to the potential purchaser and approved by the Board. Any analysis or valuation of the asset/program to be sold should be brought before the Board before any action is taken on the retention or sale of an asset/program.

Current Status: The Asset Protection policy was revised July, 2010 to state that the Executive Director shall not engage or allow staff to engage in negotiations with a potential purchaser of an asset/program without: (a) a signed non-disclosure agreement; (b) without doing an analysis or valuation of the asset including potential loss or profitability; or (c) without knowledge of the Board. Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT ***(Continued)***

IASB-2010-14B: Accounting Software:

On June 3, 2010, Mr. Schick testified to the Legislative Oversight Committee that IASB's accounting system was archaic, where each organization had its own system that drove the need to purchase new accounting software. In 2006, IASB purchased Microsoft Great Plains accounting software package (now called Microsoft Dynamics) and converted the old accounting data at that time. The organization received and made yearly updates to the software every year through 2009. Each organization managed by the IASB was set up as a separate entity on Microsoft Dynamics and the financials were tracked separately. As a result of the purchase and subsequent updating of the software, it does not appear the system was not archaic, nor did each organization use a separate accounting system as stated by Mr. Schick.

The Board was told that financial statements could not be produced as the information was not entered into the accounting system subsequent to June 30, 2009, and the accounting staff would have to enter all of the transactions into the accounting system which would take some time to complete. This did not appear to be an accurate statement as approximately 80-90% of the transactions processed by the accounting department were already entered into the accounting system by separate personnel via the accounts payable or accounts receivable modules. Two separate individuals usually handled these modules separate from Mrs. Albers, and these individuals would update the accounting system immediately when an invoice was received, checks were written, invoices were billed to customers/members, or deposits were received. After Mrs. Albers was terminated, these employees continued to perform these functions.

On November 25, 2009, Mr. Schick entered into a contract to purchase accounting software in the amount of $47,345 plus an estimated $30,000 for consulting services related to installation, setup, and importing balances, for a total of approximately $77,345. By entering into this contract, Mr. Schick appears to have violated internal policy *Code 205 which states that a single purchase or commitment of greater than $75,000 without prior Board approval cannot be made*. In addition, no other bids were received on this software and the total cost of the software was not disclosed to the Board. IASB minutes dated November 20, 2009 stated the following, "*Software-Accounting and Membership: Kevin said we are in the process of purchasing new accounting software and hope to have it operational by January 1, 2010.*" Since the organization did not have current financial statements from the existing software, it would typically not be feasible to install new software without up to date information. The total paid to the software company through the date of this report was $24,931.

Recommendation: The Board should establish procedures to ensure that all contracts are approved by the Board before any significant items are purchased and request that employees properly follow internal policies (i.e., bidding and board approval, etc.).

Current Status: The Financial Condition and Activities policy as revised in July 2010 states that the Executive Director shall not: (a) Make a single purchase or commitment of greater than $40,000 without prior board approval. A Contracts Procedure Resolution will be implemented requiring contracts be approved by the IASB Board. Approval of the contract will be documented in the minutes. Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-15B: Building Remodeling and Purchase of Executive Furniture

In anticipation of leasing space in the organization's building, Mrs. Kilcrease contracted with Joe Hansen, her former Chief of Staff at AEA 11, to provide consulting and remodeling services related to the building. Mrs. Kilcrease did not properly disclose the relationship to the Board to allow them to determine if a conflict existed. The cost to remodel the building was also not properly disclosed to the Board. Total cost incurred by the organization to remodel the building was approximately $41,018. This remodeling included $18,807 that was spent on the remodel of Mrs. Kilcrease's and Mr. Schick's offices. This included taking four existing offices and converting these offices into two offices, one for Mrs. Kilcrease and one for Mr. Schick. Total amount paid to Mrs. Kilcrease's former Chief of Staff was $12,528 which included $8,170 for consulting fees related to the Phase I & Phase II of the building remodel. In addition, Brooks Lodden, P.C. also noted through a review of invoices of furniture and equipment purchases that approximately $10,817 was spent on furniture for Mrs. Kilcrease's office.

Recommendation: The Board should establish a policy that any contract related to capital improvements or any major purchase of furniture be presented to and approved by the Board. Also, any major capital improvements to the building and potential conflicts of interest should be properly disclosed and reviewed by the Board.

Current Status: The Financial Condition and Activities policy as revised in July 14, 2010 states that the Executive Director shall not: Make a single purchase or commitment of greater than $40,000 without prior board approval or acquire, encumber, or dispose of real property without prior board approval. Conflict of interest disclosure forms are required to be signed by all board of directors, employees, and independent contractors upon hiring, and at least annually thereafter. Finding was repeated in the June 30, 2010 audit report.

IASB-2010-16B: Investigation of Allegations:

On September 9, 2009, Mr. Schick and Mrs. Kilcrease met with a school business official and Mr. Schick disclosed to this individual that Jon Muller, prior CFO, had personally received checks from vendors of IASB. Mrs. Kilcrease did not disclose this to Brooks Lodden, P.C. during our fraud inquires on October 12, 2009 and again in the letter to Brooks Lodden, P.C. dated January 22, 2010. Mr. Schick also did not disclose this to Brooks Lodden, P.C. during fraud discussions with Mr. Schick on October 27, 2009. Brooks Lodden, P.C., requested and reviewed documentation on every payment made to Jon Muller from IASB and its related organizations for the period of July 1, 2008 through June 15, 2010. Brooks Lodden, P.C. also reviewed all payroll during this same time, as well as contracts during the audits of all the related organizations, looking for any appearance of any contract being unreasonable. In addition, LWBJ (an outside CPA firm) also performed additional procedures regarding these allegations. No evidence has been uncovered to substantiate the claim made by Mr. Schick.

Recommendation: The Board has a fiduciary duty to protect the organization, including investigating any claims of wrong-doing. However, when these claims are not substantiated and these allegations are communicated to outside parties without any due diligence being performed, it exposes individuals to unwarranted damage to their reputations, and exposes the organization to potential litigation from these individuals. The Board should ensure that claims are investigated in a timely manner and allegations are not communicated to any outside parties until the investigation is completed.

Current Status: Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-17B: Critical Accounting Routines & Timeliness of Financial Statements:

Critical accounting routines are tasks which are to be completed on a regular basis in order to ensure the timeliness and accuracy of the flow of information to management, and to provide the Board of Directors sufficient timely and accurate information so that they are able to fulfill their oversight responsibilities. During the audit and review of subsequent activity, it became apparent that certain accounts were not being reconciled and financial statements had not been provided to the Board after the termination of the Director of Finance on September 17, 2009.

Recommendation: The Board should ensure that formal policies are incorporated to require management to timely reconcile accounts and provide complete and accurate financial statements on a monthly basis to the Board for review. If management does not provide timely financial statements on a monthly basis to the Board, the Board should obtain an explanation from management to determine if the delay is appropriate.

Current Status: Finding was repeated in the June 30, 2010 audit report.

IASB-2010-18B: Segregation of Duties and Supervision & Review

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles. Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud affecting the organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. The Director of Finance had access to all accounting software and calculated and posted the majority of transactions of the organization. In addition, the PaySchools program service specialists have full access to make changes to school's information in PaySchools. From July 2008 to March 2009, the CFO was documenting his review of the activities performed by the Director of Finance. After the departure of the CFO in March 2009, the duties of the Director of Finance had were not reviewed by an independent individual. After the termination of the Director of Finance, Mr. Schick was given full access to the accounting system and was added as an authorized signatory on the bank account without any compensating controls being established to oversee his activities.

Recommendation: The Board should require management to review and document current internal controls, establish a process for an ongoing review of these controls, and make changes to adequately segregate the duties of the accounting staff. If the duties cannot be segregated, procedures should be established to ensure the duties are reviewed by an independent individual. This review should be performed monthly and documented on all financial accounting records by formally noting the individual who performed the review.

Current Status: Finding was repeated in the June 30, 2010 audit report.

PART I: FINDINGS SUBSEQUENT TO YEAR END – FINANCIAL STATEMENT AUDIT REPORTED IN THE YEAR ENDED JUNE 30, 2009 AUDIT *(Continued)*

IASB-2010-19B: PaySchools Programmer

The organization hired an in-house programmer in March 2009 to provide the necessary support for the PaySchools program. This programmer has sole access to develop program changes and move them into production. Prudent security practice requires restricting programmers from moving programs into production environments. This type of access increases the risk of a programmer making unauthorized changes resulting in data integrity concerns, possible fraudulent intent, or interruption to the business.

Recommendation: Management should follow prudent security practice by removing the production access from the programmer and assigning an individual independent of program change development to move changes into production. If the duties cannot be segregated, procedures should be established to ensure program changes are reviewed by an independent individual.

Current Status: Finding was repeated in the June 30, 2010 audit report.

PART II: SUBSEQUENT FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT REPORTED IN THE JUNE 30, 2009 AUDIT

IASB-2010-20B: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K

On January 22, 2010, an e-mail was sent to Susie Olesen, Skills Iowa Director, from Randy Lagerblade stating, "*We were able to draw a final $476,530.76 today to cover the remaining expenses and overhead allocations which had not been previously drawn. This leaves $17,401.37 of grant money.*" On January 25, 2010, the $476,530.76 was deposited into the organization's bank account.

On January 24, 2010, Mrs. Olesen e-mailed Mr. Lagerblade and copied Mrs. Delagardelle stating, "*In August of 2009, Jen Albers told me we had approximately $500,000 left in the account at the end of the grant period. In order to spend the remaining funds, IASB was told by the program officer, Emily Archer, that we had to write a proposal to the USDE on how we would expend the remaining funds after the grant period had ended, and then they could only be expended on activities related to the actual grant year*." Mrs. Olesen explained in her e-mail the cost incurred on the current grant and stated, "*However, if the money you drew down didn't come from this year's grant and instead came from last year's, it was drawn down from the wrong account and will need to somehow be adjusted. Either scenario suggests I need to know exactly how much money is available through the end of the year to operate this grant.*" This e-mail was forwarded by Mrs. Delagardelle to Mrs. Kilcrease on January 24, 2010 at 9:44 a.m.

PART II: SUBSEQUENT FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT REPORTED IN THE JUNE 30, 2009 AUDIT*(Continued)*

IASB-2010-20B: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K *(Continued)*

On January 28, 2010, the remaining $17,401.37 was submitted to the U.S. Department of Education to be drawn down. On January 29, 2010, the amount was deposited into the organization's bank account. On January 28, 2010, Mrs. Olesen contacted Brooks Lodden, P.C. to notify us of the potential issue with the Skills Iowa grant. During this conversation, she was concerned about the draw down since no financial information was being provided to her for review. On January 29, 2010, Mrs. Olesen sent an e-mail to Mr. Lagerblade and copied Mrs. Delagardelle stating, *"I understand you've been busy this week, but wanted to get on your list of reports. I really do need to see the financials for this year's Skills Iowa grant and see where we are and what's left."* On January 30, 2010, Mrs. Delagardelle e-mailed Mrs. Olesen and copied Mr. Lagerblade, Mrs. Kilcrease, and Mr. Smith stating, *"Susie, Randy has some work that must be completed within the next 5-7 days and then has to have all of the final information to the auditors by Feb. 15th. These are his two top priorities so he may not be able to print out account reports for a couple of weeks."* On January 30, 2010 Mrs. Delagardelle e-mailed Mrs. Kilcrease (referring to the January 30, 2010 e-mail noted above) stating, "*Just want you to see how I responded to Susie—Didn't want to "overstep my bounds" but thought I should keep Susie from distracting Randy—she's been contacting him a lot lately for different things…*" Mrs. Kilcrease responded back, "*Very appropriate response*." On February 23, 2010, Mrs. Olesen filed a whistleblower complaint listing several items, including the Skills Iowa grant. It was not until March 10, 2010, when Mrs. Albers returned to the organization that a determination was made that $493,932.12 had been inappropriately drawn down on the federal grant. According to Mrs. Olesen, she was never contacted by Mrs. Kilcrease, Mrs. Delagardelle, or Mr. Lagerblade regarding the possibility of the grant draw being done inappropriately. This amount was paid back to the U.S. Department of Education on April 14, 2010.

For the fiscal year 08-09, the organization received two grants from the Skills Iowa program. A state grant in the amount of $500,000 and a federal grant in the amount of $2,394,015. The organization applied $500,000 of expenditures related to the Skills Iowa grants to the state grant. This documentation was included as backup information for the federal grant draw that Mrs. Albers had originally prepared before the money was drawn down. On July 23, 2009, Brooks Lodden, P.C. discussed with both Mrs. Kilcrease and Mr. Schick the importance of establishing internal control procedures over federal grants to ensure that expenses are appropriate before funds are drawn down. These controls were not put in place. Both Mr. Lagerblade and Mrs. Delagardelle stated that they were unaware the state grant existed; however, Brooks Lodden, P.C. in various e-mails and conversations had requested the breakdown of state and federal expenses to order to make our selection for testing these expenditures. The information requested was also reiterated in a formal letter dated December 11, 2009 to Mr. Lagerblade, Mr. Schick, and Mrs. Kilcrease and again in a formal letter addressed to Mrs. Kilcrease on January 11, 2010. Brooks Lodden, P.C. performed additional fraud inquires with Mrs. Delagardelle on January 11, 2010, and at this time Mrs. Delagardelle stated that Mr. Lagerblade is looking into the state and federal grant draw downs. Management was well informed that two grants existed but did not disclose any information to Brooks Lodden, P.C. In addition, the warning signs by Mrs. Olesen were ignored as well as her requests for financial information to make the determination of the appropriateness of the draws on the federal grant.

Recommendation: The Board should establish procedures over federal grants to ensure that appropriate documentation is in place and approved before grant funds are drawn down. The Board should also ensure their employees possess the necessary skills to understand the grants, the expenses associated with the grants, and federal laws, rules, and regulations associated with the grants as well as the documentation, reporting, and compliance requirements necessary to support expenditures related to the grants.

Current Status: Finding was repeated in the June 30, 2010 audit report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS *(Continued*)
For the Year Ended June 30, 2010

PART III: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2009

IASB-2009-01: Segregation of Duties and Supervision & Review

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles. Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud affecting the Organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. The Director of Finance had full access to all accounting software and calculated and posted the majority of transactions of the Organization. In addition, the PaySchools program service specialists have full access to make changes to school's information in PaySchools. From July 2008 to March 2009, the CFO was reviewing and documenting his review of the activities performed by the Director of Finance. After the departure of the CFO in March 2009, the duties of the Director of Finance were not reviewed by an independent individual. After the departure of the CFO, management immediately reported this internal control deficiency to Brooks Lodden, P.C.

Recommendation: The Board should require management to review and document current internal controls, establish a process for an ongoing review of these controls, and make changes to adequately segregate the duties of the accounting staff. If the duties cannot be segregated, procedures should be established to ensure the duties are reviewed by an independent individual. This review should be performed monthly and documented on all financial accounting records by formally noting the individual who performed the review.

Current Status: Finding was repeated in the June 30, 2010 audit report.

IASB-2009-02: PaySchools Programmer

The organization hired an in-house programmer in March 2009 to provide the necessary support for the PaySchools program. This programmer has sole access to develop program changes and move them into production. Prudent security practice requires restricting programmers from moving programs into production environments. This type of access increases the risk of a programmer making unauthorized changes resulting in data integrity concerns, possible fraudulent intent, or interruption to the business.

Recommendation: Management should follow prudent security practice by removing the production access from the programmer and assigning an individual independent of program change development to move changes into production. If the duties cannot be segregated, procedures should be established to ensure program changes are reviewed by an independent individual.

Current Status: Finding was repeated in the June 30, 2010 audit report.

PART III: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2009 *(Continued)*

IASB-2009-03: Executive Expenses

Executive Travel

The organization's policy allowed executives to be reimbursed for the cost of spouse's expenses to attend seminars with the executive. During our review of executive travel, we noted that spousal travel was incurred for Jack Hill, President, and Dick Vande Kieft, Treasurer, in the amount of $504.40 and $438.41, respectively. We also noted that Mr. Hill's and Mr. Vande Kieft's expense reimbursements did not have adequate documentation to make a determination on additional amounts, such as meals, that were paid by the organization for spousal travel. In order for the organization to properly account for, file a 1099-MISC on personal benefits received, and properly disclose these items on the IRS Form 990, it is necessary to provide all of the detailed documentation to the organization for reimbursement. In addition, the organization also paid for Ron Rice's spousal travel of $1,462; however, Mr. Rice's spouse reimbursed these costs back to the organization.

Recommendation: The Board should establish procedures to capture personal expenses paid on behalf of executives and ensure this is treated as compensation in their W-2. In regards to Directors, the organization needs to make the determination on whether or not the personal expenses exceed the threshold for filing Form 1099-MISC. The expenses should also be disclosed on the Form 990.

Current Status: The IASB Board passed an updated Travel Expense policy at their meeting on April 25, 2010, eliminating payment by the organization for spousal travel.

Computer Equipment

Computer equipment was issued to Ron Rice, Jon Muller, and Larry Sigel with an estimated fair value of $1,150, $1,000, and $2,250, respectively, when these individuals left the organization in 2009. These amounts were not included in the 2009 W-2 compensation for these individuals. Brooks Lodden, P.C. had discussions about this with Mrs. Albers in the fall of 2009 and she had planned on including this information in the W-2s; however, during the transition to the new management this reporting requirement went unnoticed.

Recommendation: The Board should amend the compensation amount in the 2009 W-2s to include the fair market value of the computer equipment that the individuals received.

Current Status: The organization has notified each individual in writing of the estimated fair value of the computer equipment they received. Each individual will be responsible for reporting this for tax purposes. The Board does not intend to issue an amended W-2 for 2009. No items of this nature were noted during the audit of June 30, 2010 financial statements. The organization is responsible to ensure that compensation is properly reported to the IRS. We continue to recommend that the W-2 be amended and resubmitted.

PART III: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2009 *(Continued)*

IASB-2009-03: Executive Expenses *(Continued)*

Loans to Officers and Directors

Mary Delagardelle and Jon Muller both used the credit cards issued to them by the organization on several occasions throughout the year ended June 30, 2009 for personal use. Total amount of personal charges incurred and reimbursed back to the organization by Mrs. Delagardelle and Mr. Muller for the year ended June 30, 2009 were $780 and $684, respectively. Both individuals signed a corporate credit card usage agreement which stated that corporate credit cards are not to be used for purchases of a personal nature, cash advances, or to circumvent compliance with normal expense requisition methods. These charges were possibly in violation of the credit card usage agreement which they signed.

On April, 9, 2009, Mr. Rice paid for Dick Vande Kieft's hotel bill with a corporate credit card in the amount $2,260.46. On April 23, 2009, Mr. Vande Kieft turned in the hotel bill to the organization and was reimbursed for the $2,260.46. It was later discovered that Mr. Vande Kieft was overpaid since the amount was paid for through the corporate credit card. On May 19, 2009, Mr. Vande Kieft reimbursed the organization for the amount that was overpaid to him.

Charging personal expenses on a credit card or for reimbursing cost that were later repaid could constitute a loan by the organization to the executive. Section 504.834 ***Loans to or Guarantees for Directors and Officers*** of Chapter 504 Revised Iowa Nonprofit Corporation Act, which states (1) A corporation shall not lend money to or guarantee the obligation of a director or officer of the corporation. (2) The fact that a loan or guarantee is made in violation of this section does not affect the borrower's liability on the loan. By charging personal expenses to the organization and over reimbursing expenses until the amount was paid back, it appears that these executives may have violated this statute.

Recommendation: The Board should establish procedures to ensure the organization complies with Section 504.834 *Loans to or Guarantees for Directors and Officers* of Chapter 504 Revised Iowa Nonprofit Corporation Act.

Current Status: The Financial Condition and Activities policy was revised in July 2010 to state that the Executive Director shall not allow the organization to make loans or guarantees of obligations on behalf of a director or officer of the corporation. Finding was repeated in the June 30, 2010 audit report.

PART III: FINDINGS - FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED JUNE 30, 2009 *(Continued)*

IASB-2009-03: Executive Expenses *(Continued)*

Documentation of Expenses

During the audit, we reviewed the credit card charges and/or expense reimbursements submitted by all officers and executive board members of the organization. During this review, we noted that several expenses did not have adequate documentation and/or credit card receipts did not always have the detailed receipt present.

In order to qualify as an accountable plan, where the expenses would not be considered compensation to the employee, the employer's reimbursement arrangement must meet all of the following requirements:

1. The employee must have incurred the expenses while performing services as an employee and the expenses must have a business connection.
2. The employer generally must reimburse actual expenses [in some situations, the employer may use a per diem rate for the reimbursement (e.g., for lodging and meals and incidentals)].
3. The employee must make an adequate accounting of the expenses to the employer within a reasonable period of time after the expenditure has been incurred.
4. If the employer makes an advance to employees in anticipation of future expenses, (a) the advance must be made within a reasonable period of time of the date the expenses are expected, (b) the amount of the advance must be reasonably expected to equal the future expenses, and (c) the employee must be required to return any unused portion of the advance within a reasonable period of time.

A nonaccountable plan is a reimbursement arrangement that fails one or more of the four requirements of an accountable plan as noted above. Reimbursements paid under a nonaccountable plan are added to the Form W-2 wages of an employee or in the case of a Board member a Form 1099-MISC would be filed; therefore, not requiring employees or Board members to account for the expenses would require these amounts to be treated as compensation to the individual.

Recommendation: Itemized receipts should be obtained to support all charges on the credit cards or reimbursements submitted to the organization, and then given to the accounting department to include as support for these transactions.

Current Status: The IASB Board passed revisions to the Credit Card policy at their meeting on April 25, 2010. Corporate credit cards may only be used for business expenses, charges require an itemized receipt, and any personal or unauthorized charges require reimbursement from the employee within ten working days. In addition, the organization has established a process in which two individuals review all credit card transactions before the amounts are paid and verify this review by initialing the statements. Finding was repeated in the June 30, 2010 audit report.

PART IV: FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2009

IASB-2009-04: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K

During the review of expenditures related to the Skills Iowa program, we found that the organization's subcontracting activities did not comply with the procurement standards set forth in Education Department General Administrative Regulations (EDGAR). The organization did not comply with procurement standards when it awarded the software contracts to US Skills, LLC. Total amount paid to US Skills, LLC for software for the school districts participating in the program was $1,867,500. This instance of noncompliance appears to be the result of a misunderstanding regarding the intention of the grant. The grant received by the organization for the period August 19, 2008 through August 18, 2009, was written as a continuation of the Skills Iowa program that was previously being conducted in the state of Iowa. The software used in this program was originally purchased by Education Leaders Council (ELC) in 2002. In a report dated July 28, 2006, from the Office of Inspector General of the U.S. Department of Education (OIG), it was noted that ELC did not properly procure the software; however, the prices paid by ELC for the software were reasonable relative to the prices paid by other clients of the software vendor. This software continued to be used by the Iowa teachers and schools participating in the Follow the Leaders (FTL) program, later renamed Skills Iowa. IASB started administering the Skills Iowa program during the 2007-2008 fiscal year. Based upon information provided by management, the cost of the software received during the year was provided at a 59% discount to the organization. On June 2, 2010, the software bidding was discussed with the U.S. Department of Education and the interpretation of the U.S. Department of Education was that since the software being purchased took the presence of a software update versus the purchasing of new software, the software would not have to be submitted to the rebidding process.

Recipients are required under EDGAR to establish policies and procedures for procurement. Regulations in 34 C.F.R. §§ 74.40 through 74.48 contain the procurement standards to be used by grantees.

These procurement standards include:

- The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. 34 C.F.R. § 74.42

- All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. 34 C.F.R. § 74.43

- All recipients shall establish written procurement procedures. 34 C.F.R. § 74.44(a)

- Recipients shall, on request, make available for the Secretary, procurement documents, such as request for proposals or invitations for bids, independent cost estimates, et cetera, when certain conditions apply. Examples of these conditions include (1) a recipient's procurement procedures fail to comply with the procurement standards, and (2) the procurement is expected to exceed $25,000 and is to be awarded without competition. 34 C.F.R. § 74.44(e)

- Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. 34 C.F.R. § 74.45

- Procurement records for purchases in excess of $25,000 must include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price. 34 C.F.R. § 74.46

PART IV: FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2009 ***(Continued)***

IASB-2009-04: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K ***(Continued)***

The management of the organization is responsible for establishing and maintaining effective internal control over federal programs that provides reasonable assurance that the organization is managing federal awards in compliance with laws, regulations, and grant provisions. Additionally, the management of the organization is responsible for complying with laws, regulations, and grant provisions related to its federal programs.

Recommendation: The organization should adopt procurement policies and procedures that comply with all the requirements set forth in regulations in 34 C.F.R. §§ 74.40 through 74.48 and ensure that it complies with procurement and documentation standards set forth in the Department of Education regulations when renewing or awarding any federally funded contract. To avoid any future issues with bidding on the unique items, the cost comparisons and the explanation of why the amount will not be bid out should be in the application to the Department of Education and pre-approved to ensure that all parties agree in advance of how the grant money will be spent.

Current Status: Finding was repeated in the June 30, 2010 audit report.

IASB-2009-05: Fund for the Improvement of Education (Skills Iowa)—CFDA No. 84.215K

During our review of expenditures charged to the grant, we noted that $234 in expenses did not have adequate documentation; the incorrect IRS mileage rate was used in the calculation of some mileage reimbursements paid to the subcontractors in the amount of $332; and the employee health insurance calculation did not factor all of the employee's withholding into the calculation causing an additional $2,054 to be charged towards the grant. Section D(3)(f) of the General Principles in Circular A-122 only allows indirect cost to be figured on the first $25,000 of each subcontractor's expenditures. Indirect costs of $2,793 were calculated incorrectly on two subcontractors. Total amount of incorrect costs charged to the grant were $5,413. During our review, it was noted that personnel have charged their time to the code designed for the federal grant; however, a full description of the activity is not always included with the time entry entered into the system. Attachment B, Selected Items of Cost, Section 8(m) Support of Salaries and Wages, of A-122 Cost Principles for Non-Profit Organizations, states the reports of salary must be prepared at least monthly and must coincide with one or more pay periods. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. All errors noted appear to be unintentional and not a misappropriation of the grant.

Recommendation: The Board should establish procedures to ensure that all cost are reviewed and documented by an independent person before the expenses are submitted to the federal government for reimbursement. Management should also work with the U.S. Department of Education to pay back the overage.

Current Status: The organization is working with the U.S. Department of Education to determine if the funds should be paid back.

PART IV: FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT FOR THE YEAR ENDED JUNE 30, 2009 ***(Continued)***

IASB-2009-06: Fund for the Improvement of Education–FIE Earmark Grant Awards (Lighthouse)—CFDA No. 84.215K

During our review of expenditures charged to the grant, we noted that $861 in expenses did not have adequate documentation. Section D(3)(f) of the General Principles in Circular A-122 only allows indirect cost to be figured on the first $25,000 of each subcontractor's expenditures. Indirect costs of $4,270 were calculated incorrectly on one subcontractor. Total amount of incorrect costs charged to the grant were $5,131. All errors noted appear to be unintentional and not a misappropriation of the grant.

Recommendation: The Board should establish procedures to ensure that all cost are reviewed and documented by an independent person before the expenses are submitted to the federal government for reimbursement. Management should also work with the U.S. Department of Education to pay back the overage or determine is this can be offset against future claims against this grant.

Current Status: During the year ended June 30, 2010, the organization incurred more costs than the grant award covered. These expenses have been submitted to the U.S. Department of Education for review to determine if these costs can offset the amounts that were improperly billed to the grant. The organization is currently waiting on a determination from the U.S. Department of Education.

IASB-2009-07: Fund for the Improvement of Education–FIE Earmark Grant Awards (Lighthouse)—CFDA No. 84.215K

During audit we noted the federal grant draws for the Lighthouse grant were not performed in a timely manner. The draw was performed on September 15, 2009 for the period July 1, 2008 through June 30, 2009 and was deposited into the IASB bank account on September 17, 2009. The timeliness of draw down of federal funds was a result of several individuals assigned to the grant not providing their time to the Director of Finance in a timely manner. Brooks Lodden, P.C. reviewed several e-mails sent by the Director of Finance to the Deputy Executive Director and one of the contractors requesting the information in order to complete the documentation to draw down the federal grant money. Both of these individuals did not provide the information in a timely manner in order for the Director of Finance to draw down the money timely. During our review, it was noted that personnel have charged their time to the code designed for the federal grant; however, a full description of the activity is not always included with the time entry entered into the system. Attachment B, Selected Items of Cost, Section 8(m) Support of Salaries and Wages, of A-122 Cost Principles for Non-Profit Organizations, states the reports of salary must be prepared at least monthly and must coincide with one or more pay periods. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

Recommendation: The Board should establish procedures to require employees working on federal grants to account for their time at least monthly and include a full detailed description of the activities performed by the employee on a daily basis.

Current Status: Finding was repeated in the June 30, 2010 audit report.