

**JOINT LEGISLATIVE OVERSIGHT COMMITTEE
IASB – BACKGROUND INFORMATION**

Early Background Information (January 2010 – May 2010)

- **Financials**
 - IASB accepts dues from 361 school districts. (DMR 3/10)
 - Dues range from \$726-\$10,366 annually. (DMR editorial 3/9)
 - IASB collects at least \$2.4million in gov't grants annually. (DMR 3/10)
 - Staffers actively misled board members about a multimillion-dollar business deal. (DMR 3/7)
 - A for-profit company run by an association executive received \$5million from IASB (DMR 3/7)
 - “We’re out of money” – Jack Hill board member (DMR 3/7)
- **Audit**
 - There were 4 whistleblower complaints. (KCCI 3/12)
 - An outside firm is conducting a forensic audit. (KCCI 3/12)
 - Must be audited annually and reports filed with the State Auditor (Iowa Code 11.6 & 279.38)
- **Human Resources Allegations**
 - Maxine Kilcrease – Executive Director 2009-present
 - Allegedly gave herself a \$157k raise, from \$210k to \$367k. (KCCI 3/12) Claims she asked for this to be corrected and was denied. Claims she was “set up” by Schick. (DMR 3/7)
 - Returned \$59k one day after Register story. (KCCI 3/12)
 - Placed on administrative leave.
 - Kevin Schick - former CFO from last summer to early January
 - Allegedly booked a vacation to Bora Bora on IASB credit card (KCCI 3/12)
 - Allegedly told board members eBay had committed to buying PaySchools, but no evidence there was ever any talk of a deal. Claimed to own an island off of FL and offered to host a retreat. Offered to personally loan IASB \$2 million to remodel office and pay mortgage. (DMR 3/7)
 - Nepotism - 6 current or former employees are closely related, of 38 employees (DMR 3/7)

Topic Background (June 2010 – January 2011)

Allegation: Salaries

- Federal tax records show that during his last 12 months as executive director, Ron Rice collected \$254,919 in total compensation from IASB. By comparison, the newly appointed director of the Iowa Department of Education is expected to be paid \$140,000 in 2011. The state agency has 644 employees, while IASB has maintained 38 positions for most of this year. The Register reported in October that IASB agreed to pay Rice more than \$1.1 million in retirement benefits for his 13 years of service.
- IASB's highest single-year salary payout was to longtime chief financial officer Jonathan Muller, whose compensation in 2009 totaled \$255,049.

- 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.
- 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.
- 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.
- The board was first made aware of these salary increases on 3/10/10, when the auditing firm had their first access to the board.
- On 3/3/2010 Mrs. Kilcrease repaid \$59,192.84. The remaining balance due to the organization is \$52,513.54, plus applicable interest.
- On 6/15/2010 Mr. Smith repaid \$9,000. On 8/6/2010 he repaid \$6312. According to audit, this is the entire balance.
- Balance owed by Mrs. Delagardelle is \$29,854.26 plus applicable interest. On the advice of counsel, she has chosen not to pay it back.
- In June 2010, the association paid a total of \$17,074 in severance pay and 401(k) contributions to two employees, one of whom had worked at IASB for six months. Auditors said they could find no record of board approval of the payments.

Allegation: Travel/Credit Cards

- 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. 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. Total expenses that do not have supporting documentation were \$10,521.23 including the trip to Bora Bora. Total amount repaid to the organization was \$9,600. The remaining balance in which receipts are not present and therefore a determination cannot be made as to the business or personal nature is \$1,216.61.
- Register 4/19/10 – Ron Rice traveled with his wife and kids to Puerto Rico, Hawaii, Maryland, Key West, Vermont, Colorado, and Oregon on IASB's dime.
- Register 4/1/2010 – Kilcrease traveled to Alaska with her husband on IASB's dime.
- July 14, 2010 IASB Board Meeting – IASB has said to their members, the Iowa Legislature, and taxpayers that they have “addressed all issues of overcompensation, unauthorized credit card charges, and lack of internal controls, by tightening or creating new board policies.”

Allegation: 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.
- 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.

Allegation: Obstruction of Audit

- At our first hearing, Mr. Lodden outlined a detailed timeline of his firm's efforts since July, 2009 to accomplish the audit for the fiscal year ending 6/30/09. He talked about the difficulty of obtaining information and management's instructions for the auditing firm not to discuss their findings to date and concerns with the board. Auditor Joe Desmond said that after he expressed some concerns to IASB management in mid-audit, management asked that he be taken off the audit and replaced.
- 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.

Allegation: Federal Grants

- On February 23, 2010, Skills Iowa Program Coordinator 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.
- The federal grant draws for the Lighthouse grant were not performed in a timely manner.
- IASB continues to draw federal grant money for two separate programs, in both cases without meeting deadlines for the submission of paperwork to justify the spending. IASB has policies in place that call for timely submission of the paperwork, but as recently as last week those policies were not being followed. "In order for a policy to work, procedures have to be in place to ensure compliance," the auditors said. (January 2011)

Allegation: Remodeling 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. 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. Approximately \$10,817 was spent on furniture for Mrs. Kilcrease's office.

Allegation: 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. No documentation could be provided to Brooks Lodden, P.C. regarding any informal or

formal contracts, documents, or discussions on this sale other than some discussion in the IASB and LGS board minutes.

Allegation: Compliance with Open Meetings Open Records

- July 14, 2010 IASB Board Meeting – IASB Board repealed their own “Financial Planning and Budgeting policy” they’ve had since 2001 in order to pass a FY 11 agency budget that would have conflicted with their safety reserves policy. The IASB Board did these two actions within minutes of each other – without one board member, the interim executive director or their outside legal counsel spoke up with any concerns about open meetings violations or best practices.
- July 14, 2010 IASB Board Meeting – IASB Board member, Mike Sexton, states that the new transparency requirements are “just an inconvenience.”
- Register on 1/19/2011 –
 - "We do have things to hide," said IASB board member Mike Sexton, who serves on the Rockwell City-Lytton school board. Sexton said school districts routinely share with IASB confidential information about student discipline and personnel matters, and the group itself has revenue-generating, for-profit businesses that could be damaged by competitors having access to their e-mails and other records.
 - Under the current open-records law, student disciplinary records, personnel records, trade secrets and proprietary information are exempt from public-disclosure requirements.
- Several IASB board members speculated at the meeting as to the kinds of records the Register and other media might request under the open-records law, apparently unaware that the Register has had specific, unresolved records requests pending with IASB since September 2010.
- Board President Russ Wiesley later confirmed that to his knowledge, none of the board members has been told what records the Register is asking to see. When asked about that, Stalker said she didn't think there was a need to tell the board what was being sought by the newspaper. Compliance with records requests is an "administrative function," she said.
- The Register has had specific, unresolved records requests pending with IASB since September 2010. IASB has refused to turn over the requested e-mails, arguing that the disclosure requirements of the new law don't apply to documents created before July 1. It has also asserted that records created after July 1, but which refer to events that occurred before July 1, can be kept confidential.
- The Des Moines Register has filed a complaint with the state ombudsman's office in protest after the association failed to provide certain records to the newspaper's reporters.
- The Iowa Association of School Boards lobbyist is trying to persuade state lawmakers to carve out new exemptions to the disclosure requirements in Iowa's open-records law (DMR 1/19/2011)

Allegation: Board and Organizational Structure

- Former IASB Board President (resigned)
 - “Apparently we’re out of money and we’ve got to figure out how we got there” (DMR 3/7)
 - Told Register he knew nothing of Kilcrease’s pay or contract. The next day, he said he remembered discussing it with her and signing a revised contract. Kilcrease claims he said board didn’t need to be consulted. (DMR 3/13)
- IASB Board stayed same membership

- IASB Board chooses Richard Vande Kieft IASB's as its new treasurer. This was the same person that was the IASB Board treasurer last year when many of these problems started. IASB Board members gave testimony before this Committee in March that they weren't to blame for their lack of oversight because they "weren't getting financial statements" last year, yet they reappoint the person who failed to do so.
- July 14, 2010 IASB Board Meeting (first open meeting requirement)
 - We have heard IASB Board members complain about the amount of time it takes to prepare for Government Oversight questions.
- In a recent guest column for the Register, IASB board member Marcia DeZonia said that the "IASB is not directly taxpayer funded." Although IASB is not a taxing entity, it does exist for the sole purpose of providing services to publicly funded school districts that collectively pay IASB \$1.2 million per year in membership dues. The association is also the direct recipient of several million dollars' worth of state and federal grants.
- Last March, IASB's former director of finance returned to the organization on a temporary basis to help prepare budget reports for the board. That person then gave IASB two months' notice of his departure to ensure a smooth transition. IASB failed to take advantage of that opportunity, auditors said, and since September 2010 financial reports have not been generated as expected. "Bank accounts are not being reconciled within the 30-day requirement and financial statements are not being prepared in a timely manner," auditors said.
- Although IASB has instituted numerous reforms intended to safeguard public money, some basic steps have not been taken. For example, internal controls are in place to ensure the proper transfer of funds, but there aren't sufficient controls in place to provide proper oversight of accounting personnel, auditors said.
- The Iowa Association of School Boards has spent more than half a million dollars on legal fees since October 2009. When the financial scandal broke in March, IASB had a staff attorney and was paying an outside law firm about \$60,000 a year for various services. The association quickly hired another firm, Brick Gentry of West Des Moines, to manage the crisis. By month's end, the firm had spent hundreds of hours working on IASB business, at a cost to taxpayers of almost \$100,000.
- The newly disclosed records show that IASB's legal bills are greater than those incurred by another local, taxpayer-financed organization (CIETC). By year's end, the consortium's legal fees totaled \$267,000.