

ENNIS PUBLIC SCHOOLS
*******MONDAY, OCTOBER 29, 2012*******

SPECIAL BOARD MEETING
FINAL AGENDA
5:00 P.M. - CAFETERIA

PLEDGE

- I. VISITORS AND PATRONS**
- II. PUBLIC COMMENT**
- III. NEW BUSINESS**
 - A. Review Draft Report Related to the School Audit

**SCHOOL DISTRICT 52
ENNIS, MADISON COUNTY, MONTANA
MONDAY, OCTOBER 29, 2012**

SPECIAL BOARD MEETING - 5:00 P.M.

Lisa Frye	Chairperson
Craig George	Vice-Chair
Jim McNally	Trustee
Mike McKittrick	Trustee
Bill Clark	Trustee
John Overstreet	Superintendent
Ginger Martello	District Clerk
Kim Downey	Denning, Downey and Associates
Dave Schulz	County Commissioner
Jim Hart	County Commissioner
Dan Happel	County Commissioner

Chairperson Frye called the meeting to order. The pledge to the flag was recited. Chairperson Frye explained that the audit planned to be completed through 2005 was reviewed back to 2007 due to logistic reasons.

VISITORS

Per Attached

Public Comment

None

NEW BUSINESS

Review Draft Report Related to the School Audit

#1: Ms. Downey reported 100% of the claims in the adult education, transportation and flex funds were reviewed from July 1, 2007 through June 30, 2012. Of those funds approximately seven million in expenditures were deemed unallowable with another eight hundred thousand that could not be determined as to their allowability. She explained the undetermined expenditures were allocations between funds and there wasn't enough documentation to determine if the expenditure was appropriate.

Trustee McNally asked if the expenditures were construction related? He also asked if other schools had allocation plans, and if so, could we get the names of those schools? He said the district was instructed that tracking time for salary employees can make them subject to overtime compensation.

Trustee George asked if an allocation plan has been done before? He also asked if the additional eight hundred thousand were construction costs?

Ms. Downey said there wasn't enough reasonable documentation to show how the district allocates funds. She said about half the schools she audits have allocation plans in place. Ms. Downey explained allocation plans can be set by a percentage by determining the time an employee spends working in each area or by calculating the percentage of expenditures by fund. She said the district could track employee hours for a week and that would give supporting documentation.

Mr. Happel asked if the board would be given recommendations on how to handle the money that cannot be determined?

Ms. Downey said by the end of the week she would present the board with possible procedures the district could put in place going forward.

Trustee McNally asked if the staff was cooperative?

Mr. Scudder asked if this information is something she would normally have?

Mr. Downey said the staff was very helpful. She said supporting documentation was there. Some claims were missing and these were minor. The issue was determining if the funds were allocated properly.

#2: Used a top-down approach to determine the value of the building. She tested \$9,857,955.07 for the building and determined \$9,712,285.33 should be included in the cost of the building. Of the remaining balance, \$58,940.20 should be included as machinery and equipment with \$23,111.21 included as capital assets or maintenance of the high school. She explained supporting documentation was not available for the remaining \$63,618.33.

Trustee McNally asked Ms. Martello if this was corrected at some point?

Ms. Martello explained the machinery and equipment had been adjusted on the Trustees' Report.

Ms. Downey agreed. She explained she could not find supporting invoices for the remaining money.

Chairperson Frye asked if this was one claim or multiple claims? She asked what the time period was and if we could back track them?

Trustee George asked if this meant we don't know who or why it was paid?

Ms. Downey said she would check to see how many claims this involved and notify the district later in the week. She felt it was within the last two years. Ms. Downey said she knows who was paid, but not what they supplied.

Superintendent Overstreet asked if it was unusual to have items not accounted for?

Ms. Downey said in a normal audit it wasn't unusual, but in this case they tested 100% and anything is an error.

#3: Analyze the funding sources which were transferred based on the Attorney General Opinion dated February 3, 2012. She determined \$2,050,000 disbursed from the flex fund were not allowed.

Trustee McNally stated Office of Public Instruction gave authority for these actions and the Attorney General Opinion turned that around.

#4: Audit sampling from the Tuition, Lunch, Federal, General, Technology, Building Reserve and miscellaneous funds and determine the appropriate use of the funds and unrecorded construction costs. The five years tested, determined \$9,564 were unallowed and \$119,931 were undeterminable.

Trustee McNally asked what wasn't allowed in the general fund?

Ms. Downey explained most of the unallowed money was utility costs, where the allocations could not be determined whether or not they were appropriate. She explained some of the undetermined costs were travel expenses and meal purchases. The invoices were there, but there wasn't any documentation supporting that the trip or purchase was approved or if it was even an expense to be paid by the school. Some of the unallowed costs were most likely coding errors.

Superintendent Overstreet asked if \$9,500 over five years in unallowable costs was small?

Ms. Downey said yes.

#5: Determine if the two houses were paid from the appropriate funds. Ms. Downey determined based on the purchase orders the houses were not permitted to be paid from the adult education and transportation funds.

Trustee George asked if her recommendations would address the houses in the future? He also asked if the houses were sold would the money go back to those funds?

Ms. Downey explained the district reports the houses as capital assets that are depreciated. She said if sold the money would go back to the general fund.

Ms. Coffman asked who was on the board when the houses were purchased? Is the plan to go back on the former members too? She asked if they were going to handle the construction of the new building the same way?

Trustee McNally said he could tell her who made the motion and seconded the purchases of the properties. He also felt there wasn't anything to go back to the other board members.

Trustee George said he couldn't see going back, although, the purchase was not proper and may have been misguided. He had no plan to tear down the new building. He wanted to move forward and implement an allocation report.

Trustee McKittrick agreed we need to move forward and not backward.

Ms. Susanne George asked if the houses should be sold and the money put back into the funds.

Trustee McNally explained Ms. Downey said the money would go to the general fund. He asked if selling the houses would solve the problem or create a new problem?

Ms. Downey explained the district could recode the transactions which would put the general fund in a huge deficit. Since the fund can't be in the negative they would borrow against another fund and pay it back through increased levies. She asked if this is what the community is looking for? She also stated there could be legal issues to address.

Mr. Kelley stated if the money was taken from the general fund it would leave a significant deficit. He said he understood Montana puts a ceiling on the general fund levies and this could leave the general fund at a serious risk.

Ms. Downey agreed. She said it would be up to OPI, attorneys and the district if they want to recode this transaction. There could be a possibility of not being able to pay the teachers. She said it would be beneficial to move forward and not let this happen again.

Mr. Happel said if there is an issue with a deficit in the general fund the district could sell the houses and put the money back in the fund.

Trustee George agreed we need to move forward, but there are mistakes that can be fixed. He said the houses were purchased wrong and he doesn't want to make the same mistakes.

Trustee McNally explained this issue was something everyone already knew about. Now was the time for a resolution and no one has come up with one. He also explained at this time, the district does not have a deficit in the general fund.

Ms. Gordon said it didn't make sense to get rid of the rental property when it is making money. She asked where the money is going?

Ms. Downey explained the money went into a lease rental fund to support the maintenance of the houses. She said there is a cap on how much money can be in the fund at the end of the year. If the ending balance is over the cap, the money goes back to the general fund.

Trustee McNally said we are trying to get the money out of adult education, not put more money in the fund.

#6: Determine if funds for employee wages were allowable. Ms. Downey explained the allocation of salaries were not supported by documentation, such as, an allocation plan. She was not able to determine if the appropriate allocation of funds were used.

Trustee George asked if this section addressed employee expenses and credit card charges that addressed Mr. Kelley and Ms. Whites' questions?

Ms. Downey said she looked at all the credit card claims and those were addressed earlier.

Mr. Hunt asked who is responsible for an allocation plan and who determines they are correct? He also asked what reports are given to the board so they can determine any shortfalls? What are the checks and balances?

Ms. Downey explained the administration works with the board to determine allocations. She said two people check the coding when it is entered and the board approves it in the end.

Trustee McNally agreed. He explained in the budget this year the board was working to correct and readjust the process.

Chairperson Frye explained the board receives the claims by fund each month for approval. She said they looked at allocations this year and have made changes. They will continue to work to make things more correct.

Superintendent Overstreet explained the allocations from the general fund for custodial and utilities moved from 33% to 45% this year.

Ms. Susanne George asked if the district is audited yearly? She asked if the auditor knows Montana law? She asked if OPI was not giving correct advice?

Ms. Downey explained the district operated under the ruling from OPI. She said after the AG opinion was released the advice from OPI was contrary to the AG opinion.

Trustee McNally said he disagreed and felt our allocations were consistent year in and year out.

Ms. Downey explained the allocations changed from year to year, but remained consistent throughout a year.

Mr. Hart said allocations can change based on an auditor or OPI.

Mr. Hunt said the superintendent needed to be educated on the right accounts and things need to match completely. He asked the board to get him the tools he needed. He asked if there should be a budget committee that included staff members?

Ms. Oliver said there is a difference between a CPA and an auditor. She stated they have knowledge in different areas. She said it is hard to keep up with the laws and it is their job to see that a school is doing things correctly. She felt it is easy to make mistakes and there may not be resources to chase down money to the penny.

Trustee George asked if there was an allocation plan in place, would we be seeing these kinds of numbers? He agreed Superintendent Overstreet is adjusting the allocations.

Ms. Downey said if there was an allocation plan, there wouldn't be anything undeterminable.

Chairperson Frye said Superintendent Overstreet is very experienced and knowledgeable and having him here has made her job easier.

Ms. Kent said in payroll employees can be paid out of a lot of different funds. She said it is hard to pinpoint minute by minute where they spend their time and it would take a lot of time to do this.

Ms. Downey said there are several ways to determine allocations, such as, time, square footage, or someone can be hired to do a time study.

Superintendent Overstreet explained this happened over time and we need time to make the changes. It can't all be done in one year. He said we don't want to devastate the general fund and hurt the children.

The board asked which employees were tested. Ms. Downey said she tested a sample of employees and would provide a list to the board at the end of the week.

#7: Reconcile the 1099's and W-2's to wages and contracts. This resulted in no exceptions until #8.

#8: Determine if the amounts reported on the 1099 should have been reported on W-2 for Doug Walsh. Ms. Downey felt the 1099 earnings in the amount of \$270,666.48 should have been reported on a W-2. She said his contracts as an Independent Contract did not meet the IC requirements. This meant he served as an employee of the district.

Trustee McNally asked how she came up with that? He asked her if she was making a legal opinion and did she realize this was under litigation? He asked Ms. Downey if Mr. Walsh wasn't an independent contractor, why did she agree the district should collect the overpayment of vacation/sick leave from Mr. Walsh? He asked her to add a footnote to her report about the district being in litigation for this item. He said she is forming a legal opinion under contract law.

Ms. Downey said she read his contracts and followed the rules for independent contractor and Mr. Walsh did not meet that criteria. She said the rules for 1099's are very specific. She reviewed the numbers for the vacation/sick payout and determined them to be correct.

Mr. Kelley asked if Mr. Walsh met all twenty of the criteria for an independent contractor?

Ms. Susanne George asked if someone can say they are an independent contractor, not meet the rules, and ask for a 1099 and get away with it? She asked if the school didn't know, would they be off the hook?

Ms. Downey said the district would need to seek legal advice.

Chairperson Frye asked if all payments to Mr. Walsh were reviewed?

Mr. Glines asked if talking about an individual without them being there was legal?

Trustee George and Chairperson Frye asked Ms. Downey if there were other areas that needed to be reviewed or was she comfortable with where this was ended?

Trustee George said he didn't want her to allege crimes, but did we need to go back further

and address any other areas of deficiency?

Ms. Downey said she didn't feel it was necessary to go any further. She said she didn't come up with much more than what was expected.

Trustee George asked the board if they wanted to do any additional testing?

The board felt there wasn't any need to go further. They asked Ms. Downing to list which employee salaries were tested in item 6 and list the missing invoices from item 2.

Trustee George made a motion to accept the conclusions we have from Denning and Downey's oral and written audit reports without exception as the Board's response to the community and the Madison County Commissioners for an audit. Motion was amended to include in the written report under item eight, "This matter is currently in litigation Trustee McNally seconded the motion".

Chairperson Frye asked the county commissioners if they were satisfied with the report?

Mr. Schulz said he was satisfied the questions were answered and there was good input in the discussion.

Mr. Happel said his observation was that these issues should have been handled by an auditor. He urged the district to hire Denning and Downey as their auditor and to put in place the procedures they recommend.

Jim Hart said he was comfortable with this decision. He felt this was a good discussion and hoped it would allow everyone to move forward. He said not everyone will be satisfied with the answers, but he said the board did a good job.

As there was no other business for the attention of the board, the meeting was adjourned at 6:22 p.m.

Attest


Ginger R. Martello, District Clerk


Lisa Frye, Chairperson

11-14-2012
Date Approved

Ennis School Board Meeting

Visitor Sign In

Date: Oct 29, 2012

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| 1. <u>Lou & Martha Scudder</u> | 21. <u>Karen McKittrick</u> |
| 2. <u>Brandy Webb</u> | 22. <u>Lynn Dolph</u> |
| 3. <u>Candy Pederson</u> | 23. <u>Cathy Kline</u> |
| 4. <u>Chad Offman</u> | 24. <u>Mayorie L Kent</u> |
| 5. <u>Bonnie J. Kiser</u> | 25. <u>Victoria Gordon</u> |
| 6. <u>Mike Komer</u> | 26. <u>David Schuler</u> |
| 7. <u>Suzanne George</u> | 27. <u>Brenda Glens</u> |
| 8. <u>Jennifer Clark</u> | 28. <u>MARC GLASS</u> |
| 9. <u>Melissa Mann</u> | 29. <u>Maniah Oliver</u> |
| 10. <u>Gregory</u> | 30. <u>Jim HART</u> |
| 11. <u>Debbie Trivette</u> | 31. <u>DAN HAPPEL</u> |
| 12. <u>Brenda Clark</u> | 32. <u>Roberta A. McKary</u> |
| 13. <u>Eileen White</u> | 33. <u>MIKE RICHMAN</u> |
| 14. <u>Lore Walsh</u> <u>Ky (ed)</u> | 34. <u>DAVE KELLEY</u> |
| 15. <u>Colleen McKittrick</u> | 35. <u>Julia Kunst</u> |
| 16. <u>Cindy McKittrick</u> | 36. <u>Lou & Lu</u> |
| 17. <u>HRH</u> | 37. <u>Joan Deeney</u> |
| 18. <u>Big Hilt</u> | 38. <u>Deb Coffman</u> |
| 19. <u>Marlene Marti</u> | 39. <u>Tracy Kippen</u> |
| 20. <u>John Sullivan</u> | 40. <u>Michelle Hughes</u>
<u>Christy O</u> |