



Thomas A. Schweich
Missouri State Auditor

Rockwood R-VI School District

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Rockwood R-VI School District

<p>Program Management Services, Change Orders, and Conflict of Interest</p>	<p>The district has used the same program management company since the late 1990s. Although proposals are solicited for these services, the district said bidder qualifications and experience are the deciding factors and fees are not negotiated until after the vendor is selected. It appears the district overpaid this program management company by paying a percentage fee of estimated costs rather than actual costs and by paying \$1,203,178 in additional fees for change orders for work not contemplated in the original contract. The district often used change orders for substantial project changes or for new projects without soliciting bids and without documenting the reasons for using change orders rather than bidding. While still employed by the program management company, a School Board member voted in favor of projects which increased the fees paid to the program management company. Such conflicts of interest violate district policy and state law. In addition, the district does not retain all bid proposals and related documents as required.</p>
<p>Bond Financing</p>	<p>The district used the same provider to serve as both financial advisor and bond underwriter for several general obligation refunding bond issues, which causes an inherent conflict of interest. The district sold these bonds using negotiated sales, which is allowed by state law, but competitive sales would likely result in lower interest costs for the district.</p>
<p>Procurement Cards</p>	<p>The district has not adequately analyzed which staff need procurement cards or the number of cards needed, and the master credit card list is not accurate. The district requires users to obtain approval before exceeding transaction or monthly credit limits, but does not maintain documentation of such approvals.</p>
<p>Procurement Procedures</p>	<p>The district frequently obtains professional services without benefit of a competitive selection process. The district has used the same law firm and auditing firm without soliciting proposals for either since 2005. The district hired two former colleagues of the superintendent as consultants without soliciting proposals, and the district has not solicited bids for vendor fuel card services since September 2007.</p>
<p>Receipting Procedures</p>	<p>Most departments and/or programs do not issue receipt slips for monies received or issue receipt slips only for cash receipts, and receipt records do not always support the amounts deposited. Most departments make copies of checks and record cash amounts on receipt or deposit logs. Audit staff reviewed several deposits and found several missing copies of checks, making it difficult to account for all monies received. Various departments transmit monies to the Finance Department and the Community Education Department for further processing and deposit, but employees do not document their acknowledgement of the transmitted monies. Audit staff found one deposit exceeded the transmitted amount by \$650 with no explanation.</p>

Capital Assets and Fuel Usage	The district does not conduct an annual physical inventory of district property, and the district's capital assets procedures and records are not adequate. There were gaps in the numerical sequence of assigned identification numbers, a network server was mislabeled on the asset listing, and some vehicles were not properly reported on the capital asset listing. The district does not document a reconciliation of diesel fuel pumped to fuel invoices, the district receives a monthly report of fuel card purchases but no review or approval is documented, and mileage/usage logs are not maintained for most vehicles.
Superintendent's Contract	The Superintendent's contract for the 2012-2013 school year provides for \$150,000 of life insurance, but a \$500,000 life insurance policy has been provided since July 1, 2010.
Attendance Reporting Controls	The district's attendance system allows changes to be made to student attendance records anytime during the current school year, and there is no review by district officials to ensure changes made to current year attendance records are appropriate.
Computer Controls	The district does not require that computer passwords be periodically changed, and no security controls are in place to shut down computers after a certain period of inactivity or detect or prevent incorrect login attempts.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act (Federal Stimulus)	During the audit period, the district received and expended \$680,857 in Federal Stimulus monies. Details are contained in the audit report.
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*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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THOMAS A. SCHWEICH

Missouri State Auditor

To the Board of Education
Rockwood R-VI School District

The State Auditor conducted an audit of the Rockwood R-VI School District under authority granted in Section 29.205, RSMo. We have audited certain operations of the district in fulfillment of our duties. The district engaged Kerber, Eck, and Braeckel, LLP, Certified Public Accountants, to audit the district's financial statements for the year ended June 30, 2012. To minimize duplication of effort, we reviewed the report of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2012. The objectives of our audit were to:

1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in our audit of the district.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Rockwood R-VI School District.



Thomas A. Schweich
State Auditor

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Rockwood R-VI School District

Management Advisory Report

State Auditor's Findings

1. Program Management Services, Change Orders, and Conflict of Interest

Significant fees in excess of those provided for by contract were paid to the program management company overseeing construction and renovation projects funded by bond issues. A change order process is frequently used rather than seeking bids to accomplish substantial project changes or new projects and reasons are not sufficiently documented. A conflict of interest existed between the program management company and a School Board member. Problems were also noted with the process for selecting program management services and retention of the related documentation.

In fiscal years 2003, 2006, 2008, and 2010, the district issued voter-approved bonds totaling \$50.5 million, \$45.5 million, \$74.5 million, and \$55 million, respectively. The bond issues are typically allocated to three areas: construction and renovation, technology upgrades, and maintenance projects performed by district employees. For example, for the \$55 million 2010 bond issue the district allocated \$32.5 million to construction and renovation, \$10.7 million to technology upgrades, and \$9.5 million to in-house maintenance projects. The remaining \$2.3 million was used to pay the 7 percent management fee to the program management company, Glenn Construction Company. The district has used this same company as its bond construction and renovation program manager since the late 1990s. The district solicits proposals for project management each time a bond issue is on the ballot and Glenn Construction Company has been selected each time. Steve Smith has been a Board member for various periods of time since 1989 (April 1989 to April 1995; September 2003 to April 2004; May 2010 to current). In 2004, Smith began employment with Glenn Construction, but was not a Board member when Glenn Construction Company was hired to act as program manager for the 2006, 2008, and 2010 bond issues. Smith was president of the Board from April 2011 until December 2011. Smith resigned from Glenn Construction Company in June 2012.

1.1 Program management fees

The program management company has been paid management fees totaling \$11,159,932 as of September 30, 2012, related to four bond issuances in 2010, 2008, 2006, and 2003. Concerns were noted regarding additional fees paid to this company based on added projects and changes orders.

The program management company was paid additional fees of \$1,203,178 for managing projects not itemized in the original scope of the contract, without making modifications to the existing contract or entering into a new contract. Management fees are calculated using the "Cost of the Program" amount (portion of the bond proceeds allocated for construction and renovation projects or total bond proceeds excluding costs of projects managed by the district itself, program management fee, and bond issuance costs) and the approved fee percentage. For example, 2010 bond issue proceeds designated for construction and renovations totaled approximately \$32.5 million with a management fee percentage of 7 percent, resulting in the program management fee totaling over \$2.27 million. The fee is



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disbursed in 30 equal monthly payments. Fee percentages approved for other bond issues were 7 percent for 2008, 6 percent for 2006, and 5 percent for 2003. The 2009 contract with the program management company contains language allowing changes to the program and the program management fee, with the "Cost of the Program" and terms being adjusted upon mutual agreement of the parties, and authorizes such modifications be made by change order. However, the use of change orders to support substantial project changes or additions and additional fees may not be appropriate (see section 1.2). Due to the vagueness of the contract, these additional fees appear to represent overpayments. It appears improper to extend the existing arrangement to change orders without formally amending the contract or entering into a new contract, or to pay such significant additional fees without documented support.

When projects itemized in the contract are completed under budget, therefore not utilizing the full amount of the bond proceeds designated for those projects and on which the management fees are based, additional construction projects are performed with the remaining bond issuance monies ("Cost of the Program" less actual costs). Glenn Construction Company is paid an additional fee for these new projects from the remaining bond monies; however, these monies are already included in the calculation of the original fee which is paid over a 30 month period. At this point separate payments may be made to Glenn Construction Company, one for the original fee and others for any added fees, or amounts may be combined into a single payment. There is no written basis for the fees paid to manage the additional projects, and these appear to represent overpayments. Also, fees for 17 additional projects were paid at a different percentage than stated in the contract and the fee percentage for 12 additional projects could not be determined. The following table documents the original and additional management fees paid for the district's last four bond issuances.

Bond Issue Date		Bond Proceeds Designated for Construction and			
		Total Bond Issuance	Renovation Projects	Original * Management Fee	Additional * Management Fees
2010	\$	55,000,000	32,476,635	2,273,365	324,351
2008		74,500,000	51,112,976	3,577,886	460,211
2006		45,500,000	33,525,000	2,011,500	117,320
2003		50,500,000	36,698,190	1,834,910	301,296
Total	\$	225,500,000	153,812,801	9,697,661	1,203,178

* - The total fees of \$11,159,932 paid for project management fees include the sum of (1) original management fee, (2) additional management fees, and (3) other management fees of \$259,093 paid from other funding sources in 2003. The other funding sources were comprised of interest earned on bond proceeds prior to disbursing monies, bond monies reallocated from technology or facilities to construction, and a transfer from a building fund.



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Contracts should be appropriately amended or new contracts negotiated to establish requirements regarding significant additional work beyond the original scope of the approved projects and any related fees. Fees for managing additional projects should be monitored to ensure overpayment does not occur.

Given the significant costs associated with these services and the length of time the district has been using this project management company, it is essential cost analyses be periodically performed to ensure district funds are spent in the best interest of the district.

1.2 Change orders

The district did not bid out significant work resulting from change orders, treated some new projects as change orders, and issued new contracts which were not bid. The district does not have documentation justifying the reasons for using change orders instead of bidding for significant project additions and changes.

Marquette High School

During the 2 year Marquette High School renovation, which started in 2010, 36 change orders totaling \$1,822,069 were processed and not bid, representing approximately 32 percent of the 5 original contract amounts, which totaled \$5,750,000. A description of some of the change orders follows.

- The district entered into a contract with a vendor for \$3,380,000 to construct additional classrooms and for library renovations. The Board subsequently approved 13 change orders totaling \$437,384 for additional construction work.
- The district entered into a contract with a vendor for \$1,137,000 to construct a new field house and an addition to a weight room. The Board subsequently approved eight change orders totaling \$113,084 for a new wall, asphalt, and additional construction.
- The district entered into a contract with a vendor for \$731,895 to complete upgrades at Marquette to be compliant with clean water and storm water runoff regulations. The same day the contract was approved, a change order to that same contract for work at Chesterfield Elementary was also approved for \$36,507. In addition, the Board subsequently approved 11 change orders for work at Marquette High School totaling \$959,590 for a new fire lane, asphalt, and additional work, more than doubling the original contract amount.

The work at Chesterfield Elementary was a new project and because the cost was more than \$15,000, it should have been bid as required by law.



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- The district entered into a contract with a vendor for \$326,000 for improvements and construction of interior stairs to connect the upper and lower levels of the "G" wing. The Board approved three change orders totaling \$287,287 for a canopy and additional construction work.
- The district entered into a contract with a vendor for \$101,958 to install exterior insulation and for repairs. The Board approved one change order for \$24,720 for a new ladder and additional work.

Change order contracts

Two of the contracts issued for the Marquette High School renovations paid with proceeds from the 2010 bond issuance were not bid. The new work was considered continuing work related to the 2008 bond issue and change orders were used instead of using a competitive bid process. The additional improvements were necessary to comply with new regulations for clean water and storm water runoff at Marquette and three other schools. Further, a memo to the Board justified awarding the new contracts to the same vendors since they were already on-site performing work associated with the 2008 bond issue. In addition, over \$2 million in additional change orders were approved for one of these vendors beyond the new change order contract. As a result of processing these new contracts as change orders, it appears the bidding process was circumvented.

The table below documents the contracts:

<u>Construction Services</u>	<u>New Contracts Classified as Change Orders</u>	<u>Additional Change Orders after Contract</u>	<u>Total Contract</u>
Asphalting	\$ 768,402	2,072,896	2,841,298
Waterproofing	326,000	287,288	613,288
Total	\$ 1,094,402	2,360,184	3,454,586

Conclusion

The need for such significant change orders casts doubt on the overall planning process and value of original plans and estimates. While change orders often occur on construction projects, they are normally used to make adjustments for minor problems which are unknown when construction projects are originally bid. Change orders should be kept to a minimum to ensure the maximum amount of construction costs are competitively bid. Change orders should not be used to make significant changes to existing contracts. If the scope of a project changes substantially, consideration should be given to bidding those parts of the project instead of using change orders. When determining whether to solicit bids and enter into new contracts or use a change order process for project changes or additions, documented justification outlining reasons for the decision should be maintained. Handling new projects or significant changes or additions to existing projects as change orders circumvents the bidding process. Section 177.086, RSMo, requires school districts to advertise bids for construction of facilities which may exceed a disbursement of \$15,000.



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1.3 Conflict of interest

Board member Steve Smith had a conflict of interest on matters voted on by the Board.

Steve Smith was appointed by the Board to fill a board vacancy (May 2010). At the time of this Board appointment, Smith was an active employee of Glenn Construction Company. Smith disclosed this employee relationship to the Board on his application to fill the vacant Board position. Smith's position as an appointed board member was later followed by his election to the Board in April 2011. Despite his employment with Glenn Construction Company, Smith voted to approve change orders/additional projects which resulted in additional fees paid to Glenn Construction Company. As a result of Smith's failing to recuse himself from actions by the Board relating to business conducted with Glenn Construction Company, a conflict of interest existed between Smith, as an employee of Glenn Construction Company, and Smith's duty as a Board member.

Our review of several Board approved projects determined that Board member Smith did not always abstain from voting on issues related to Glenn Construction Company; rather, he voted on several additional projects that resulted in additional compensation to his employer. Smith voted for 12 additional projects approved from January 2011 to June 2012, totaling \$2,703,782 and resulting in \$189,265 in additional management fees paid to his employer. For 3 of these 12 additional projects, change orders were used instead of soliciting bids and entering into new contracts. These three change orders totaled \$551,238 and resulted in \$38,587 in additional management fees. Smith terminated his employment with Glenn Construction Company in June 2012.

By voting on the change orders which resulted in additional fees to Glenn Construction Company, Smith violated Section 105.454(4), RSMo, which prohibits an elected official of a political subdivision from performing any services for any person, firm or corporation for compensation, other than the compensation provided for the performance of their official duties, in which their service influences a decision of the political subdivision.

Board members of a school district serve in a fiduciary capacity. Personal interests in business matters of the school district create actual or the appearance of conflicts of interest, and a lack of independence could harm public confidence in the Board and reduce its effectiveness. Further, Board Policy 0311 addresses conflict of interest and states "Members shall avoid being placed in a position of conflict of interest, and shall not use the Board position for personal or partisan gain. Members shall conduct themselves in accordance with the conflict of interest policy and disclosure requirements prescribed by statute and Board policy."



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1.4 Selection process and record retention

As previously stated, the district has used the Glenn Construction Company for program management services to oversee construction and renovation projects since the late 1990s. Proposals are solicited for these services each time bond issues are proposed to voters. District personnel indicated bidder qualifications and experience are the determining factors when awarding the contract. Fees, which are substantial (totaling more than \$2.27 million for the 2009 contract) are negotiated after the award is made. We reviewed proposals for the most recent program management contract dated October 15, 2009, pertaining to construction and renovation projects financed with 2010 bond issue monies. The district only maintained documentation for proposals submitted by two of the three bidders and did not retain bid evaluation committee scorecards to support the committee's recommendation. Also, district personnel indicated proposal documentation related to previous contracts entered into with Glenn Construction Company was not retained.

Good business practices require sound practical approaches to negotiating fees to be paid for services rendered. Documentation of the various proposals received, and the district's selection process and criteria, should be retained to demonstrate compliance with state law and district policy, and support decisions made. In addition, the Missouri Local Records Board General Records Retention Schedule (Local Governments), Section GS 023 Capital Improvement Projects Files, requires bid related records to be maintained for the life of the structure plus 10 years.

Recommendations

The Rockwood School Board:

- 1.1 Ensure all services to be provided and fees to be paid are clearly documented in a contract to avoid confusion and misunderstanding. In addition, the district should attempt to collect any overpayment of fees.
- 1.2 Ensure improved planning and monitoring of projects is performed to avoid significant change orders and give consideration to soliciting bids when substantial changes or additions are necessary. All decisions and justification for the decisions should be properly documented.
- 1.3 Ensure each Board member avoids participation in decisions or other situations that could result in the appearance of or actual conflict of interest.
- 1.4 Consider proposed fees as part of the program management services proposal evaluation process and retain all bid documentation for the required period of time.



Auditee's Response

The School Board provided the following written responses:

- 1.1 *The district has spent significant time and effort in the past 12 months reviewing its policies, procedures, and contracts related to construction management and construction generally. At the February 7, 2013 meeting, the Board considered a first reading of recommended changes to the Board's construction management Policy and Regulation 7130. These will be acted on by the Board at its March 7, 2013 meeting. These policy changes have been reviewed by legal counsel to ensure full compliance with Missouri statutes. All future construction will strictly comply with the updated policies. Future contracts will clearly define the services to be provided and clearly state the amount of fees to be paid to the construction manager for all work performed. Legal counsel will be consulted in drafting, negotiating and/or reviewing all future construction and construction management contracts of the district.*

The district acknowledges that the language of the contract with Glenn Construction could have been clearer. However, the terms of the contract did authorize the payment of additional fees to Glenn Construction for additional work not identified in the original scope. See Section 7.1 of the Contract. The district will review the documentation surrounding each specific additional payment to Glenn Construction and determine whether in fact any "overpayments" did exist.

It is unlikely that future bond issues of the district will be of the magnitude of those projects referred to in the Audit Report, and future bond issue projects may not even require program management or construction management services. The district is reviewing and considering all options with respect to the upcoming bond issue, to determine what type of services may be needed.

- 1.2 *For future construction projects, the scope of the project will be clearly defined in the architectural drawings before bids are solicited. The district will clearly describe the conditions and process for change orders in all contracts. If there is a change based on an unforeseen circumstance or a permit requirement that is limited to the existing scope of the project, a change order may be issued. If the change is substantial and can be performed by another contractor without disrupting the original scope of work, the district will give consideration to soliciting bids. The district will properly document the justification for all decisions and take steps to improve the planning and monitoring of projects.*



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- 1.3 *With regard to the situation involving Mr. Smith, the district notes that in June of 2010, after Mr. Smith was appointed to the Board, the Board Secretary specifically asked for guidance from the Missouri School Board Association (MSBA) whether a new Board member who is employed by the bond issue general contractor “should abstain from all agenda items pertaining to contracts with companies working with Glenn Construction” and “Should the board member abstain from all agenda items pertaining to Bond Issue monies?” Two MSBA attorneys responded in writing that there was no legal conflict of interest in such votes and it was not necessary to abstain. Mr. Smith abstained, and in fact left the room, on votes for additional payments to Glenn Construction.*

Whether or not Mr. Smith “influenced the decision of the Board” is a factual determination which cannot be made without a complete investigation. Any such investigations are under the jurisdiction of the Missouri Ethics Commission. The district notes that the Auditor did not speak with Mr. Smith or the individual Board members regarding this issue, and strongly objects to the conclusionary statement in the report that a violation of the Missouri Statutes did occur.

The district will take additional steps to avoid even the appearance of a conflict of interest. As noted in the district responses to 1.1 and 1.2, any future contracts will more clearly define the obligations of the parties, and more clearly provide procedures for change orders, all of which will assist the district in being able to identify circumstances where an appearance or actual conflict of interest may exist for a Board member. Further, the district will review its policies and procedures to determine if additional steps can be taken to avoid the appearance of or actual conflicts of interest by Board members.

- 1.4 *The district agrees with the Auditor’s recommendation. The district will evaluate proposed fees as part of any program management or construction management services and the district will retain all bid documentation as required by Board policy and state law. The district has taken immediate steps to improve these procedures.*

Auditor's Comment

- 1.3 While Board member Smith did abstain on votes approving payments to Glenn Construction Company, he had already voted to approve change orders/additional projects with various construction companies performing work on projects funded with bond issue monies. These approvals resulted in additional fees paid to Glenn Construction Company.



2. Bond Financing

The district used the same provider to serve as both financial advisor and bond underwriter for several general obligation refunding bond issues, and sold these bonds using a negotiated sale rather than a competitive bid process.

During fiscal years 2008 through 2012 the district sold four general refunding bond issues totaling \$84.5 million through a negotiated sale in which the financial advisor also acted as the bond underwriter. Using the same provider to act in the dual capacity of financial advisor and underwriter for a bond issue creates an inherent conflict of interest. The lack of independent financial advice could result in the district not being adequately informed of bond issuance options or being unable to adequately evaluate bond proposals. Also, the district relied on the advice of the bond underwriter instead of seeking open bids to assure the most competitive rate of return for taxpayers. Underwriter fees for the four bond issues totaled \$337,920 and were paid to the district's financial advisor, who also acted as the bond underwriter.

The Government Financial Officers Association (GFOA)¹ recommends against using the bond underwriter as a financial advisor because the duties of the underwriter and financial advisor are separate and can be adverse, so using the same provider for both roles causes an inherent conflict of interest. The underwriter does not have a fiduciary responsibility to the district.

While Missouri law does not require competitive sales of these types of financing instruments or competition in selecting bond underwriters and financial advisors, competitive sales would likely result in lower interest costs for the district, and competition in selecting bond underwriters and financial advisors is important to ensure services are obtained from the best qualified providers at a fair price.

Recommendation

The Rockwood School Board discontinue using an underwriter who also acts in a dual capacity as financial advisor.

Auditee's Response

The School Board provided the following written response:

In prior years, districts were allowed to use a financial advisor on bond issues and act as an underwriter of the bond for a negotiated sale. When interest rates fluctuate, a negotiated sales gives the issuer more flexibility to time the sale of the bonds to minimize interest cost. Absent an unusual interest rate environment, the district intends to issue bonds on a

¹ "Best Practice Selecting Underwriters for Negotiated Bond Sales," Government Financial Officers Association, October 17, 2008, <http://www.gfoa.org/index.php?option=com_content&task=view&id=1585>, accessed February 1, 2013.



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competitive sale. In either case, the district agrees with the recommendation and in the future will not contract with one firm to provide financial advisory and underwriting services for the same bond issue.

3. Procurement Cards

District policies and procedures to review the assignment and use of procurement cards are not adequate.

Approximately 19 percent of full-time and part-time faculty and staff had district-issued procurement cards as of June 2012. Each procurement card is an official VISA credit card which is designed to provide a more convenient procurement method than the purchase order system. Most procurement cards have individual transaction limits under \$1,000 and a monthly spending limit ranging from \$2,000 to \$6,000; however, there are cards with monthly credit limits ranging from \$10,000 to \$1.5 million. During the year ended June 30, 2012, procurement card purchases totaled approximately \$4.5 million.

Number of cards

The district has not adequately analyzed which staff need procurement cards or the number of cards needed, and at the time of our review 152 of the 659 procurement cards issued to full-time and part-time faculty and staff had less than \$1,000 in total purchases during the fiscal year ended June 30, 2012. Also, at least 34 district employees have been issued more than one procurement card.

In addition, the district's master credit card list is not accurate. The master credit card list as of October 2012 included 26 employees with invalid credit cards (not on the bank record of active cards). In addition, bank records included 12 employees with active cards that were not on the district's list.

Given the potential liability related to credit cards, the district should review credit card assignments and evaluate each employee's continued need for a card and the need for multiple cards issued to the same user. The district should update the master credit card listing periodically to ensure completeness and accuracy.

Credit and transaction limits

The procurement card policy provides for users that intend or need to exceed limits to request transaction and monthly credit limit increases from the purchasing department prior to making the related transactions. Such approvals are needed so that charges exceeding limits are not rejected; however, documentation of these requests and approvals were not retained. District policy does not require supporting documentation be retained by the purchasing department for authorized increases in monthly or individual transaction limits. As a result, the district had no documentation of approvals when monthly credit or transaction limits were exceeded. Our review of month-end credit card balances for the year ending June 30, 2012, showed 33 instances where the month-end credit card balance exceeded the approved monthly credit limit. A review of activity for some cards with



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excess balances showed some transactions that exceeded established limits. For example, a single charge totaling \$2,800 for a field trip was made on a card with a single transaction limit of \$1,000 and another transaction for \$904 was made on a card with a monthly transaction limit of \$400. Also, eight \$609 transactions were charged to the same vendor on February 21, 2012, on one card with a \$1,000 monthly limit, which would have resulted in a single transaction of \$4,872. Further, staff in the Information Technology Department responsible for purchasing computer hardware and software have a credit card with a \$1,500,000 credit limit and another card with a \$400,000 credit limit, and only charged a total of approximately \$145,000 during fiscal year 2012.

Excessive or improperly monitored credit card limits can result in misuse of district funds. Limits should be based on typical use and need; and re-evaluated periodically for reasonableness. Procurement card policies are established to provide adequate controls and monitoring of transactions processed through procurement cards; however, the assigned cardholder is ultimately responsible to ensure all transactions comply with adopted policies. Retention of approvals for exceeding established limits is needed to show compliance with policy and provide support should questions arise regarding related credit card charges.

Recommendation

The Rockwood School Board evaluate the need for each procurement card issued and update the master credit card listing periodically. In addition, the Board should periodically evaluate credit card limits and ensure approved purchases exceeding those limits are properly documented. Retention of such approval should be required by policy.

Auditee's Response

The School Board provided the following written response:

Procurement cards were issued pursuant to standards developed by the purchasing department. There is some inconsistency in use of the cards between employees who perform the same job duties. Some choose to use the cards more than others. The initial limits were not intended to replace all purchase order activity. In some cases, the purchasing department would temporarily increase the limit for a specific purchase after consulting with the user. Once the purchase was completed, the limit was returned to the initial value. In the case of IT staff, the limit was set at the \$1.5 million and \$400,000 level to purchase technology equipment over the internet under a state procurement contract. Large purchases were made pursuant to bond initiatives. By making the purchases with a procurement card, the district received a rebate on the purchase.

The district agrees with the Auditor that the master list and credit authority should be reviewed periodically. The district will submit a request to the Board each year regarding the issuance of cards to various employees and the corresponding credit limits. It will include information about past usage.



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The district will develop and enact a Board policy to document this process, reinforce proper usage of the cards and outline the process for temporary increases in the credit limit.

4. Procurement Procedures

Professional services are frequently obtained without benefit of a competitive selection process and fuel purchases have not been bid for several years.

District purchasing Policy 3170 requires written bids to be obtained for all goods and services costing between \$1,000 and \$7,500, and requires sealed bids from qualified bidders and board approval prior to awarding the purchase for goods or services costing over \$7,500. Some purchases, including legal services, are specifically exempted from the purchasing policy.

We noted the district has not solicited proposals for some professional services and did not always bid for goods as required. Without such procedures, the district cannot ensure it receives quality goods or services at the best price.

- The district has used the same law firm and auditing firm without soliciting proposals for either of these services since 2005. The initial contracts for both services were for 3 years; however, the district has extended the contract for legal services annually and executed two 3 year contract extensions for auditing services. The district paid \$134,000 and \$34,000 for legal and auditing services, respectively, during the year ended June 30, 2012.
- The district did not solicit proposals for consulting services prior to hiring two former colleagues of the superintendent as independent contractors in October 2010 to review district employee positions and create a restructuring program to maximize district operations. The district paid consulting fees totaling \$61,200 (\$30,600 each) to the independent contractors during the year ended June 30, 2011.
- According to the Director of Purchasing, the district has not solicited bids for fuel purchases made using vendor fuel cards since September 2007. The district entered into a contract in September 2007 to purchase fuel for vehicles using a vendor charge card assigned to each vehicle. In addition, the executed contract automatically renews for additional periods of 12 months unless the contract is terminated. The district charged approximately \$227,000 on district fuel cards during the year ending June 30, 2012.

In addition to being required by district purchasing policy for most purchases, soliciting proposals and/or bids for goods and services is a good business practice. These procedures also help provide a range of possible



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choices, and allow the district to make better-informed decisions to ensure necessary goods or services are obtained from the best qualified provider after taking expertise, experience, and cost into consideration.

Recommendation

The Rockwood School Board ensure compliance with the district purchasing policy and modify the policy to require a periodic and competitive selection process when obtaining professional services.

Auditee's Response

The School Board provided the following written response:

Soliciting proposals for all consulting services prior to hiring is not legally required, nor was it mandated by Board policy. On February 7, 2013, the Board reviewed and revised several of its policies relating to purchasing and the employment of consultants. See, e.g., Board Policies 3170 and 4120. These changes were intended, in part, to prevent the issues raised by the Auditor in connection with consulting services, so they will not occur in the future. The Board has reviewed and revised all policies relating to the purchase of services and the use of consultants. The district will ensure compliance with the Board purchasing policies.

With respect specifically to legal services, although the district has utilized the same law firm since 2005, there has been no increase in the rate paid to the law firm since that date. The total legal fees to the firm referred to in the audit for 2011-2012 of \$134,000 is less than many previous years, and less than the annual fees paid for many school districts of a similar or smaller size. The district will execute a written contract reflecting the current arrangement. A periodic and competitive solicitation of these services is not required by law, however, the district will review the matter to determine if and when a competitive selection process for legal services is desirable for the district. The district will amend its policies to reflect its determination, if needed.

The district's current contract with its auditing firm expires after completing the audit for the year end June 30, 2013. The district will consider a competitive procurement for auditing services upon completion of the contract term.

For fuel, the district does solicit bids for bulk fuel used by the bus company. The district does not maintain a bulk fuel site for fleet cars. Since the maintenance and technology staff travels throughout the district, it is important to have fueling stations situated throughout the district. In 2007, the district entered into a contract with a vendor called Fuel Man. The contract allows district staff to fuel at stations across the district at a rate below the price provided to the general public. Each vehicle has a card that the staff member uses when fueling the vehicle. The card has restrictions, including the time of day the vehicle is fueled, the number of gallons per



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week and the type of fuel (diesel vs. unleaded). The staff member must enter a pin to start the transaction and then indicate the current odometer reading of the district vehicle. The program will flag any instance where the odometer reading is not in synch. These controls are important to ensure that charges are only made for legitimate business reasons. The district agrees with the Auditor that new proposals should be solicited for these services. The district currently has a request for information (RFI) outstanding to determine what features are currently available for these programs.

5. Receipting Procedures

Initial receipting and recording of monies is not sufficient and transmittal procedures do not provide proper accountability.

5.1 Receipting procedures

Most departments and/or programs do not issue receipt slips for monies received or issue receipts slips only for cash receipts. Also, receipt records are not always sufficient to support amounts deposited. The Finance Department, and several departmental programs including the Full Day Kindergarten, Out of District Tuition, Recreation, Enrichment, Visual and Performing Arts, Aquatics Programs, and the Babler Outdoor Education Center do not issue pre-numbered receipt slips for any monies received and the Adventure Club only issues receipt slips for cash. Most departments only make copies of checks and record cash amounts on receipt or deposit logs as supporting documentation for the deposit. The Finance Department and Community Education Department received monies totaling approximately \$12.5 million during the year ended June 30, 2012.

We reviewed five or more deposits from each program listed above and noted some problems. Copies of checks were missing for \$518 of a May 24, 2012, deposit totaling \$3,058 in fees for the Recreation Department's adult volleyball program. In addition, checks could not be located for five deposits totaling \$9,037 for the Visual Performing Arts Program and two deposits totaling \$599 for the Enrichment Program. As a result, there is less assurance all monies received have been accounted for properly.

To properly account for monies received and provide support for amounts deposited, official prenumbered receipt slips should be issued for all monies received and reconciled to deposits.

5.2 Transmitting procedures

Various district departments transmit monies to the Finance Department and the Community Education Department for further processing and deposit. Although some departments submit a report of receipts, employees do not document their acknowledgment of the report or of the monies that have been transmitted from one person to the next. For example, the Babler Outdoor Education Center transmittal report indicated checks totaling \$4,437 were transmitted to the Finance Department on March 26, 2012. No receipt acknowledging the transmittal was provided to Babler Outdoor



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Education Center from the Finance Department. The subsequent deposit, which should have agreed to the amount transmitted, exceeded the transmittal amount by \$650. No explanation could be provided.

To establish proper accountability over transmittals, employees should issue receipt slips for monies received from other departments and programs or develop a process to better document the transmittal of monies.

Recommendations

The Rockwood School Board:

- 5.1 Ensure pre-numbered receipt slips are issued for all monies received and the composition of receipts is reconciled to deposits.
- 5.2 Ensure receipt slips are issued or transmittal records are signed to better document the transmittal of monies between departments.

Auditee's Response

The School Board provided the following written responses:

- 5.1 *The most significant portion of the district receipts are made through bank wires from the county or state. The district does collect checks and cash as part of the student activity funds and for various self-funded programs. The district agrees with the Auditor that the issuance of receipts creates a contemporaneous record of money received and should be implemented wherever possible. The district will implement procedures to address these issues in the programs mentioned in the Audit Report. On a long-range basis, the district will also review and consider approaches that will address funds received in the classrooms.*
- 5.2 *As part of the receipting process, the district will incorporate controls to address the transmittal of funds from the person originally receipting the money through the bank deposit.*

6. Capital Assets and Fuel Usage

Controls and procedures over district property and fuel usage need improvement.

6.1 Capital assets

Procedures and records to account for district property are not adequate. As a result, assets are more susceptible to theft or misuse. The Director of Finance and the Director of Transportation/Purchasing indicated an annual physical inventory of district property is not performed by the school district. In addition, capital asset listings are not always updated accurately. Equipment, furniture, and vehicles were valued at approximately \$31.3 million at June 30, 2012. We identified several issues with the capital asset listings:



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- There were many instances of gaps in the numerical sequence of identification numbers assigned by the capital asset computer program for capital asset additions for the fiscal year ended June 30, 2012. District personnel could not explain how the numbers are assigned or why there are gaps in the sequence.
- A network server was mislabeled as a computer on the asset listing. Although this network server had been disposed of, it had not been removed from the asset listing and district personnel could not provide information regarding method or date of disposal. In addition, a laser printer and a video projector reflected on the asset listing could not be located at one of the elementary schools. School personnel indicated these items had been disposed of approximately 10 years ago.
- Four vehicles and the related detailed information were on the vehicle listing two times each resulting in the vehicle listing cost being overstated by \$109,000. In addition, two vehicles on the vehicle listing had the same license number included in the description although the vehicles were different makes and models. The Director of Purchasing indicated the one vehicle had been sold in August 2012.
- Four vehicles on the district fuel card list were not included on the capital asset listing.

Conducting annual physical inventories and properly updating capital asset are necessary to ensure the accuracy of capital asset records and to detect the loss, theft, or misuse of assets. Any discrepancies identified should be promptly investigated.

6.2 Vehicles and fuel use

Controls and procedures over fuel use and purchases need improvement. The district used 165 buses, and owned 94 non-pool vehicles, 11 pool vehicles, and 25 pieces of equipment as of June 30, 2012. District fuel purchases for diesel tanks and on credit cards totaled approximately \$1.3 million during the year ended June 30, 2012.

- The district maintains two diesel tanks for fueling school buses and some non-pool vehicles and equipment. In addition, some buses are housed at off-site locations and records of fuel pumped are provided to the district but no reconciliation to fuel invoices is performed. The maintenance supervisor for one diesel tank indicated he reconciles the fuel invoices to the daily fuel usage log, however, he does not document his review. There are no records of fuel usage maintained at the second diesel tank. As an alternative the school bus service could provide mileage reports for buses; however, the district does not request these reports.



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- District pool vehicles (available for use at the administration buildings and schools) and several other non-pool vehicles are issued fuel cards to purchase unleaded gasoline which is tracked using the vendor's system report. At the end of each month, the district receives a report documenting the date, employee name, current odometer reading, number of gallons, and purchase amount. Although the Director of Transportation indicated he scans the reports for accuracy, he does not document his review and approval.
- Mileage/usage logs are not maintained for pool vehicles (except for one), non-pool vehicles, or buses to adequately monitor the usage of district vehicles. As a result, theft and misuse of fuel could go undetected. Although the company which provides school busses for the district tracks the beginning, ending odometer readings and calculates the miles driven for each bus, the district does not request this report to reconcile fuel usage to fuel purchased each month.

Procedures for reviewing fuel used and reconciling use to fuel purchased and on hand are necessary to ensure the reasonableness and propriety of fuel use and disbursements. In addition, mileage logs are necessary to document the appropriate use of vehicles, and to support fuel charges. Failure to account for fuel use could result in theft and misuse going undetected.

Recommendations

The Rockwood School Board:

- 6.1 Ensure complete, accurate, and detailed capital asset records are maintained and annual physical inventories conducted and compared to detailed records.
- 6.2 Ensure a documented periodic reconciliation of fuel purchased to fuel used is performed, and investigate any significant discrepancies. In addition, the Board should ensure mileage logs are maintained for all district vehicles.

Auditee's Response

The School Board provided the following written responses:

- 6.1 *The district maintains a perpetual inventory system. As items are purchased or gifted to the district, assets are added to the system. When items are surplus and sold, assets are removed from the system. The district does not currently perform a physical inventory to verify the accuracy of the perpetual inventory. The district understands the benefits of performing a physical inventory, as well as the costs. It takes a significant number of hours to locate each item on the physical inventory. With a district the size of Rockwood, furniture and equipment does not always stay in its original location. Therefore, once a physical inventory is completed for each room of each building, the results must be compared with the*



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perpetual inventory and any discrepancy must be resolved. This process could involve teachers and administrators conducting a physical inventory within their own rooms or the district could hire additional staff or a contractor to perform the inventory. To increase efficiency, the assets should be individually marked with a bar code. This allows staff to use a bar code reader to enroll each asset as it is found. There is a significant additional cost to prepare the assets for this process. At a time of shrinking budgets, these additional expenditures would need to be made by reducing other expenditures. A decision would have to be made based on the financial benefits of conducting a physical inventory versus the cost. The district will investigate alternatives, including improvements to the existing perpetual inventory system, and then make recommendations to the Board.

In regards to the duplicate recording of vehicles, the district has adjusted the inventory record and is now performing monthly reconciliations of the capital purchases to the inventory records.

- 6.2 *The district agrees with the recommendation and will prepare a monthly report. Based on the current fueling program, the district can use odometer readings and gallons used based on information provided at the pump. Miles per gallon information can be computed from this information and checked for propriety. On an annual basis, the latest odometer reading can be verified with each vehicle.*

7. Superintendent's Contract

The Superintendent's contract for the 2012-2013 school year provides for \$150,000 of life insurance. However, district records show a \$500,000 life insurance policy has actually been provided since July 1, 2010, when the current Superintendent was initially employed.

Accurate written contracts that clearly indicate district responsibilities and the compensation package provided to the district's Superintendent are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings.

Recommendation

The Rockwood School Board ensure the contract with the Superintendent is accurate.

Auditee's Response

The School Board provided the following written response:

The district agrees with this recommendation and will update the current written contract to ensure it accurately reflects the approved agreement between the Superintendent and the Board.



8. Attendance Reporting Controls

The district's attendance system does not adequately limit the time frame during which changes can be made to student attendance records. In addition, there is no review by district officials to ensure changes made to current school year attendance records are appropriate. Without limiting the time frame allowing when changes can be made or reviewing changes made, the data is subject to erroneous changes which may significantly affect attendance reports to the Department of Elementary and Secondary Education (DESE).

District procedures require daily student attendance is to be recorded in the attendance system by each teacher. A preliminary attendance report is generated each day and reviewed by the school attendance secretary for accuracy before finalizing the daily attendance. If any changes need to be made before finalizing the daily attendance, or at a later date when a correction needs to be made, the change can be made by each school's attendance secretary. Changes to the daily attendance records can be made by attendance secretaries anytime for the current school year. In addition, no report is currently generated and reviewed by district administrative personnel to ensure all changes made to attendance records are accurate and appropriate. Also, there is no documentation indicating all necessary changes have been completed prior to uploading the attendance to the DESE.

Making legitimate changes to attendance data is necessary to ensure accuracy in the reporting process and changes must be made before attendance can be certified to the DESE. However, all changes should be reviewed and approved to ensure reliability of the attendance data.

Recommendation

The Rockwood School Board implement additional controls and procedures to ensure student attendance data is accurately recorded and reported, including restricting the time frame in which changes to data can be made. In addition, all changes to attendance data should be reviewed to ensure accuracy.

Auditee's Response

The School Board provided the following written response:

The district agrees with this recommendation and will implement changes. The software program used by the district does not allow a "lock-out" procedure for subsequent changes, however, the district will implement procedures to allow adequate time for changes at the end of each month and then backup the data to a separate file. State reports will be based on the backup to avoid any changes after the cut-off date. Changes to attendance data will be reviewed to ensure accuracy.



9. Computer Controls

Controls over district computer systems are not sufficient to prevent unauthorized access. As a result, district records are unprotected and susceptible to damage or theft.

9.1 Access restrictions

Access to computer systems and data is not adequately restricted to only authorized users. Although the use of passwords to access computer systems is required, passwords are not periodically changed to help ensure they remain known only to the assigned user and to reduce the risk of compromised passwords. An ineffective password system increases the risk of unauthorized access and changes to the computer systems and district data.

Passwords are an effective, simple control to provide protection against improper access to computer systems and data. Passwords should be unique and confidential, changed periodically to reduce the risk of unauthorized use, and used to restrict individuals' access to only those computer systems and data files they need to accomplish their jobs.

9.2 Computer inactivity

A security control is not in place in any of the district offices to shut down computers after a certain period of inactivity and detect or prevent incorrect login attempts. As a result, unauthorized individuals could access an unattended computer and have unrestricted access to programs and data files. To help protect computer files, security controls should be implemented to shut down the system after a certain period of inactivity and to detect and prevent incorrect login attempts.

Recommendations

The Rockwood School Board:

- 9.1 Require unique passwords for each employee that are confidential and periodically changed to prevent unauthorized access to district computer systems and data.
- 9.2 Require a security control requiring computers to shut down after a certain period of inactivity and lock computers after a specified number of incorrect logon attempts.

Auditee's Response

The School Board provided the following written response:

- 9.1
- &9.2 *The district agrees with these recommendations and is in the process of implementing these changes.*

Rockwood R-VI School District

Organization and Statistical Information

The Rockwood R-VI School District is located in St. Louis County and Jefferson County. The district covers approximately 150 square miles in the cities of Ballwin, Chesterfield, Clarkson Valley, Ellisville, Eureka, Fenton, Manchester, Wildwood and Winchester.

The district operates 4 high schools (grades 9-12), 6 middle schools (grades 6-8), and 19 elementary school (grades K-5.). Enrollment was 22,568 for the 2011-2012 school year. The district employed 2,408 full- and 1,070 part-time employees at June 30, 2012.

The Rockwood R-VI School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

School Board

An elected board acts as the policy-making body for the district's operations. The board's seven members serve 3-year terms without compensation. Members of the board at June 30, 2012, were

Janet Strate, President
Matt Doell, Vice-President
Stephen Banton, Member
William (Bill) Brown, Member
Dr. Keith Kinder, Member
Sherri L. Rogers, Member
Steve Smith Member

Superintendent

The district's superintendent at June 30, 2012, was Dr. Bruce Borchers. His annual compensation in fiscal year 2012 was \$256,934 which included a base salary of \$230,000; the value of health, dental and vision insurance including family coverage which totaled \$17,362; and a car allowance of \$8,000. Annual compensation also includes \$1,420 in district-paid premiums each year for a \$500,000 life insurance policy and \$152 in district-paid premiums for supplemental disability insurance. The superintendent's compensation is established by the school board.

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

According to district personnel, the district was awarded the following American Recovery and Reinvestment Act of 2009 funding during the year ended June 30, 2012:

During the year ended June 30, 2012, the district received and expended \$589,654 from a State Fiscal Stabilization Fund-Education State Grant from the U.S. Department of Education for salaries and program costs, which resulted in the retention of an estimated six jobs.

During the year ended June 30, 2012, the district received and expended \$24,684 from an Education Jobs Fund Grant by the U.S. Department of



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Education for salaries and benefits, which resulted in the retention of an estimated one job.

During the year ended June 30, 2012, the district received and expended \$33,776 from Title I Grants to Local Educational Agencies by the U.S. Department of Education for salaries and transportation costs, which resulted in retention of one job.

During the year ended June 30, 2012, the district received and expended \$32,743 from a State Fiscal Stabilization Fund - Government Services Grant from the U.S. Department of Education for salaries and program cost, which resulted in the retention of an estimated one job.