



**Thomas A. Schweich**  
Missouri State Auditor

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# Lee's Summit R-VII School District



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February 2014  
Report No. 2014-008

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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Lee's Summit R-VII School District

### Procurement Procedures

The district did not competitively bid several purchases in accordance with district administrative procedure and state law, including travel services (\$29,172), installation of technology equipment (\$21,866), and printing (\$20,357), and did not always document in writing single feasible source justifications. District administrative procedures require competitive, advertised, sealed bids for construction of facilities costing \$15,000 and above and require bids for individual non-construction purchases projected to cost \$5,000 or more and quotes for non-construction purchases under \$5,000. The district does not always document the evaluation and selection of architectural/construction management services for non-bond issue projects as required by board policy and state law. The district has not periodically solicited proposals for some professional services and has used the same vendors for several years. The district has used the same auditor for 15 years, diversity initiative provider for 6 years, and primary legal counsel for 4 years without periodically soliciting proposals.

### Written Agreements

The district does not have written agreements with the entities providing legal services or the communications audit, and district officials did not sign an education services contract for the 2012-2013 school year until March 28, 2013. The district pays \$25,000 to the Lee's Summit Economic Development Council for membership, but the council's website indicates maximum membership benefits are available for \$10,000, and it is unclear what additional benefits the district receives for the additional contribution. The district subsidizes a significant portion of the operating expenses of the Lee's Summit Educational Foundation, a legally separate not-for-profit corporation, and has not entered into a written agreement with the foundation. The foundation's employees, its Director, and Administrative Assistant are housed in the district's main administration building free of charge, and the district pays their salaries and fringe benefits and other foundation expenses even though they spend only 10 percent of their time working on district activities.

### Disbursements

The district did not adequately monitor contract payments, and a contractor overcharged the district \$4,095 in the 2012-2013 school year. The contractor subsequently reimbursed the district. The district does not competitively bid significant changes to construction projects and does not always timely approve construction change orders. The district paid a \$25,340 change order for a paving project at Lee's Summit North High School that was not included in the vendor's original bid proposal, and the Board did not approve and district officials did not sign the change order until at least a week after the work was complete. The district paid a \$60,616 change order for carpet removal and replacement at Meadow Lane Elementary that was not included in the vendor's original bid proposal and approved by the Board. The district does not monitor purchasing card transaction limits, and limits for some individuals are excessive. The district has over 900 purchasing cards assigned to various personnel with monthly limits ranging from \$1,000 to \$600,000.

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**Vehicle Allowances**

The district has historically paid a vehicle allowance to several employees who use their personal vehicles to conduct official business within the district, but, other than for the superintendent, the district does not include vehicle allowances in employee contracts, and the Board does not approve the allowances as additional compensation. The district has not performed an analysis to ensure the vehicle allowances meet the needs of these positions or are reasonable. Using the IRS-allowed mileage rate, the superintendent would need to travel over 26,000 business-related miles to earn the \$15,000 vehicle allowance he would have been paid for the year ended June 30, 2014. This number of miles is considerably more than the 4,284 business-related miles he drove his district-provided vehicle during calendar year 2012. The Board indicated in its response to our recommendation that it will no longer provide the superintendent with the vehicle allowance.

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**Land Purchase**

The district purchased approximately 51 acres of land in December 2012 for \$775,000 to be used for the district's fourth middle school, but it did not obtain an independent appraisal, so it has less assurance it paid the fair value of the property.

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

\*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  
Lee's Summit R-VII School District

The State Auditor conducted an audit of the Lee's Summit R-VII 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 Marr and Company, P.C., Certified Public Accountants (CPAs), to audit the district's financial statements for the year ended June 30, 2013. To minimize duplication of effort, we reviewed the report of the CPA firm for the year ended June 30, 2012, audit, since the year ended June 30, 2013, audit, had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2013. 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; performing site visits during Missouri Assessment Program testing; 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 tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 Lee's Summit R-VII School District.



Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Regina Pruitt, CPA
Audit Manager:	Kelly Davis, M.Acct., CPA, CFE
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# Lee's Summit R-VII School District

## Management Advisory Report

### State Auditor's Findings

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#### **1. Procurement Procedures**

Several purchases were not bid or documentation of bidding was not retained and the selection process for professional services was not always adequate.

##### 1.1 Bidding

The district did not competitively bid several purchases in accordance with district administrative procedure and state law.

District administrative procedure DJC-API requires competitive, advertised, sealed bids for construction of facilities costing \$15,000 and above (based on Section 177.086, RSMo). The administrative procedure also requires bids for individual non-construction purchases that are projected to cost \$5,000 or more and quotes are required for non-construction purchases under \$5,000. The administrative procedure requires district staff to compare and document prices from at least two vendors or service providers, but allows for single feasible source purchases when it is documented in writing. Examples of purchases not bid or for which quotes were not requested in accordance with district administrative procedures during the year ended June 30, 2013, include:

Item	Cost
Travel services	\$ 29,172
Installation of technology equipment	21,866
Printing	20,357
Student lockers	17,104
Aquatic Center flooring	9,735
Picnic tables and trash cans	9,301
Rough-in and installation of two sinks	5,750
Design, production, and mailing of post cards	2,932

For the student lockers purchase, bids were obtained but the purchase was not advertised in accordance with the district administrative procedure. The district identified the technology installation purchase as a single feasible source procurement because the vendor was the preferred vendor of the technology manufacturer. This justification was not documented in writing as required by the administrative procedure.

Competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. In addition, bidding helps ensure all parties are given an equal opportunity to participate in the district's business. Written documentation of bids also provides evidence the district complied with its administrative procedure.

##### 1.2 Architectural/ Construction management services

The district does not always document the evaluation and selection of architectural/construction management services for non-bond issue projects as required by board policy and state law.



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Per a district official, the district formally evaluates firms upon the issuance of each new district bond issue for construction, the last of which was in 2010. Since then, the district has worked extensively with four firms for services generally including design, preparation of construction documents, bidding and negotiating contracts with subcontractors, and construction administration. The district does not always document the selection process when choosing these contracted services for non-bond issue projects and cannot demonstrate compliance with board policy and state law. Payments for these services totaled approximately \$247,800 during the year ended June 30, 2013, for projects including the Lee's Summit High School serving line, Meadow Lane Elementary classroom remodeling, and roofing projects at Trail Ridge Elementary and Summit Lakes Middle School.

Board Policy FEB states that when considering the need for architectural services, interested firms may be requested to submit statements of their qualifications, performance data and also a fee schedule. The policy also states one of the top three qualified firms is to be hired based on demonstrated competence and qualifications for the services specified at a fair and reasonable price. Board Policy FEC states construction management service proposals should be solicited by advertisement and evaluated based on established criteria. In addition, Sections 8.285 to 8.291, RSMo, provide requirements for the selection of architectural services.

### 1.3 Professional services

The district has not periodically solicited proposals for some professional services, and the district has used the same vendors for several years. Examples of professional services selected without a competitive process during the year ended June 30, 2013, include:

Item	Cost
Disabled student transportation	\$ 211,072
Additional student transportation	179,209
Behavioral support and consulting	149,679
Primary legal counsel	114,005
Audit	27,999
Diversity initiative	12,000

The district has used the same auditor for 15 years, diversity initiative provider for 6 years, and primary legal counsel for 4 years without periodically soliciting proposals. For other examples noted above, the district identified the purchase as a single feasible source procurement, but did not document this information in writing in accordance with district administrative procedure DJF-AP1. A district official also acknowledged the behavioral support provider was the only provider at the time the district originally procured the services, but the behavioral support and consulting field has expanded.



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Periodically soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the district to make better-informed decisions to ensure necessary services are obtained from the best qualified provider, taking expertise, experience, and/or cost into consideration. Documentation of sole source procurements is necessary to ensure the validity and propriety of such procurements, and demonstrate compliance with district administrative procedures.

## Recommendations

The School Board:

- 1.1 Competitively bid for purchases in accordance with district administrative procedure and state law.
- 1.2 Ensure the district complies with board policies and state law when evaluating and selecting architectural/construction management services and document the evaluation and selection process.
- 1.3 Periodically solicit proposals for professional services in accordance with district administrative procedures.

## Auditee's Response

*The School Board provided the following written responses:*

- 1.1 *The District agrees, in accordance with District administrative procedures and state law, documentation, identified selection process, competitive bidding, and single feasible source purchase accompanied by written documentation ensures the District will receive fair value and lowest best bid considerations.*

*The District will utilize the Director of Purchasing and Distribution Services to review the items as presented to determine the circumstances that suggest discrepancies in the bidding practices, unit price extension, contract amendments, contingencies and/or expanded scope projects that may be exceptions to routine bid and documentation activities. This position will facilitate a Superintendent chartered process action team to align, in the Spring of 2014, various bidding and change order policies, practices, and procedures. The various Budget Managers will be responsible to follow these District policies, practices, and procedures, document the same, and clearly identify areas where single source purchase may be deemed necessary. Budget Managers will attend annual training sessions hosted by Purchasing and Distribution Services and Business Services and will be responsible for compliance with all applicable policies and state law. Enhancements to the purchasing website are scheduled and will provide more interactive FAQ's. Site leadership will also*



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*have increased access to the Site Purchasing Specialist for larger scale procurement items.*

*Travel Services: The payment was for travel services provided to the District for the student trip to China. This vendor has provided similar services to the District since the inception of the China program. The itinerary for the student-based trip is complex in terms of coordination of activities in the multiple cities visited during the trip. This agency has provided excellent services to the District resulting in the on-going use of this agency for these specific travel services. The District agrees adequate bidding and documentation is not available. Budget Managers and other staff with procurement responsibilities and authorization will be made aware of the requirement to solicit and document bids.*

*Installation of Technology Equipment: The District has used services and purchased materials, supplies and equipment from Kansas City Audio Visual (KCAV) since 2011. Technology staff did check pricing and installation methods of various companies available to perform services and furnish the technology supplies/equipment needed. Each company's pricing was comparable. The District selected Kansas City Audio Visual because they partner with Smart Technologies (impacting pricing and service ability) and they are a member of the State of Kansas Purchasing Contract #36416, which the District was able to leverage per state statute. The Kansas Purchasing Contract includes hardware, labor and installation. In addition, KCAV has provided pricing below the rates stated in the Kansas Purchasing Contract resulting in lower rates for the purchase of Smart Boards and more efficient logistical equipment installation. The District agrees adequate documentation is not available. Budget Managers and others with procurement authorization will be made aware of the requirement to document bids.*

*Printing: This item noted in the report represented the payment of five invoices from two high schools for school year start-up supplies, including student planners. School staff indicated the vendor was selected several years ago following the solicitation of telephone, on-line, and catalog pricing. The District agrees adequate documentation is not available. Budget Managers and others with procurement authorization will be made aware of the requirement to document bids.*

*Student lockers: Academic and athletic student lockers were installed at Summit Lakes Middle School to accommodate increased attendance. Debourgh lockers were specified as "sole source" to match existing athletic lockers already installed at SLMS. Bids,*



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*documented by quotes from the vendors and retained in Facility Services office, were received from the local dealer Carroll Seating and the next nearest dealer in Wichita, Kansas Contract Design. The contract was awarded in the amount of \$17,104 to Carroll Seating based on the low bid. This bid was not processed in accordance with District guidelines for advertising and bidding.*

*Aquatic Center flooring: Existing concrete flooring at the Aquatic Center was a base cured concrete surface that was somewhat slippery and also difficult to clean. Site visits were made to various aquatic centers in the Kansas City metro area to evaluate a desired epoxy flooring installation and performance. Desco Flooring was awarded this project based on the quality of their finished product. Square foot pricing was evaluated by the architect, pool consultant, and construction manager and was found to be competitive within industry standards. The District agrees adequate bidding and documentation is not available. Budget Managers and others with procurement authorization will be made aware of the requirement to solicit and document bids.*

*Picnic tables and trash cans: The items noted in the report represent the payment of an invoice from one high school for the purchase of tables and trash cans to match existing furnishings. School staff indicated the vendor was selected due to the need to provide a visually appealing courtyard area for students and to procure these items from the same manufacturer used to purchase the existing furnishings. The District agrees adequate bidding and documentation is not available. Budget Managers and other staff with procurement responsibilities and authorization will be made aware of the requirement to solicit and document bids.*

*Rough-in and installation of two sinks: The installation of two sinks was requested as a Non-Allocated Capital Project by Summit Technology Academy to accommodate program growth in the bio-medical area. This scope of work was part of a larger renovation project and due to Lexington Plumbing being in-district when the work was needed to ensure timely completion; Facility Services secured pricing from Lexington Plumbing. The pricing for Lexington Plumbing was evaluated based on prevailing wage information and supplied materials. This project was awarded to Lexington due to pricing and responsiveness. The District agrees adequate bidding and documentation is not available. Budget Managers and other staff with procurement responsibilities and authorization will be made aware of the requirement to solicit and document bids.*



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*Design, production, and mailing of post cards: The items noted in the report represented the payment of one invoice for the design, production, and mailing of postcards inviting parents to the school. School staff indicated the vendor was selected several years ago following efforts to identify one source to provide the entire range of services. The District agrees adequate bidding and documentation is not available. Budget Managers and other staff with purchasing responsibilities and authorization will be made aware of the requirement to solicit and document bids.*

- 1.2 *The District agrees that, in accordance with the specific requirements in state statute and Board Policy, the District process and procedures should be followed for the selection of Construction Management services and various Architectural services.*

*The District has reviewed the Construction Management and Architectural services selection process used in all four previous bond issues since 2002, for future construction of a proposed Elementary #19, and various other capital improvements in the areas of Performance Contracting, construction, remodeling and renovation, and Non-Allocated Capital Requests. The district has available the documentation to support proper advertisement when appropriate, specifications, selection methodology, and selection team composite rankings. A member of the school board is always a part of this team activity. Board of Education approval of the selection team recommendations for construction management occurred in each instance. Board of Education approval of Bond Issue recommendations for Architectural services also occurred. From the approved Architect selection pool, depending on the minor project location, scope of work, fee comparison, demonstrated competence, and experience, the best qualified Architectural services provider is then identified by Facility Services and assigned to a specific minor projects responsibility. The District will in the future require that the Facility Services assignment is supported by appropriate documentation.*

- 1.3 *The District agrees that bids and proposals should be solicited for all goods and services and sole source procurements should be adequately documented.*

*Disabled Student/Additional Student Transportation: Special and Student Services staff responsible for procurement will be made aware of the requirement to solicit and document pricing.*

*Behavioral Support and Consulting: Special Services staff have implemented a process with the assistance of legal counsel to develop a standardized contract template for a wide range of*



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*student services within Special Services. Special Services staff responsible for procurement will be made aware of the requirement to solicit and document pricing.*

*The District has now developed a legal services agreement outlining expectations and costs of services from each legal firm providing services to the District. Prior to payment, legal invoices are reviewed by the appropriate administrator and approved for payment. The Accounts Payable staff also review invoices for compliance with the pricing submitted by the legal firm and appropriate general ledger coding prior to payment.*

*Audit: Prior to the last service agreement renewal, the District evaluated the audit costs for surrounding districts and compared the costs to the proposed fees from Marr and Company. The district determined the pricing from Marr and Company provided competitive pricing for audit services and Marr and Company provide satisfactory services to the District. The details of the audit services agreement were provided to the Board of Education prior to the approval on June 14, 2012.*

*Diversity Initiative: The Diversity initiative is an individualized program developed specifically for the District. This program's administrators have determined, to ensure on-going continuity within the diversity initiative, a sole-source vendor will provide services. The District agrees adequate documentation is not available. The program administrators will document the sole-sourcing of this service consistent with District policy. The program administrators understand and agree bids, quotes, and proposals will be solicited and documented for other services required for the program.*

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## 2. Written Agreements

Improvement is needed in the district's handling of written agreements.

### 2.1 Written agreements

The district did not always enter into formal written agreements defining services provided and benefits received, or enter into written agreements in a timely manner.

- The district does not have a written agreement with its primary legal counsel. The district paid this firm \$114,005 in the year ended June 30, 2013.



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- The district did not enter into a written agreement for an audit evaluating its communication strategies, community relations, branding, etc. The cost of this service was \$11,700.
- The district annually pays \$25,000 to the Lee's Summit Economic Development Council for membership. However, according to the council's website only a \$10,000 investment by the district is required to receive the maximum benefits of membership (i.e. the Angel investment category).

The district does not have a written agreement with this entity; therefore, it is unclear what additional benefits, if any, the district receives as a result of these additional contributions.

- District officials did not sign an educational services contract for the 2012-2013 school year until March 28, 2013. These services were required by student individualized education plans.

Clear, detailed, and timely written agreements are necessary to ensure both parties are aware of the services to be performed and the compensation to be paid for the services, provide a means for the district to monitor compliance with the agreement terms, and protect the district in the event of a dispute over the terms of the agreement. In addition, Section 432.070, RSMo, requires contracts for political subdivisions be in writing.

**2.2 Foundation subsidization** The district subsidizes a significant portion of the operating expenses of the Lee's Summit Educational Foundation and has not entered into a written agreement with the foundation.

The foundation's employees, its Director and Administrative Assistant, are housed in the district's main administration building free of charge and their salaries, totaling approximately \$119,400, and fringe benefits are paid by the district. However, according to district officials, these employees spend the majority of their time, approximately 90 percent, working on foundation activities and only 10 percent of their time working on district related activities. Foundation supplies, software and equipment, travel expenses, and other miscellaneous expenses are also paid by the district. For the year ended June 30, 2013, these expenses totaled approximately \$22,800.

The foundation is a legally separate charitable not-for-profit corporation established to raise private funds to help support programs within the district. The foundation is governed by a 10-member board of directors. A district board member, the superintendent, and other district administrators serve on the foundation's advisory board.



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The district has not entered into a written agreement with the foundation to address office space, services, and financial support provided, or a requirement to reimburse the district for the expenses paid on behalf of the foundation. A written agreement that clearly indicates the benefit to the district for these subsidizations is necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings.

## Recommendations

The School Board:

- 2.1 Enter into timely written agreements defining services provided and benefits received, and monitor these agreements for compliance with the terms of the agreement.
- 2.2 Discontinue the practice of subsidizing operations and activities of foundation or enter into written agreements that clearly indicate the benefit to the district for these subsidizations.

## Auditee's Response

*The School Board provided the following written responses:*

- 2.1 *Legal Services: The District has now developed a legal services agreement outlining expectations and costs of services from each legal firm providing services to the District. Prior to payment, legal invoices are reviewed by the appropriate administrator and approved for payment. The Accounts Payable staff also review invoices for compliance with the pricing submitted by the legal firm and appropriate general ledger coding prior to payment.*

*Communication Audit Services: The District utilized the services of a local company familiar with the Lee's Summit school community. Understanding the Lee's Summit school community culture was determined to be a critical component in securing input from various focus groups within and outside the District. Budget managers and other staff with purchasing responsibilities and authorization will be made aware of the requirement to solicit and document bids or document sole sourcing of services, and entering into written agreements.*

*Lee's Summit Economic Development Council (LSEDC): The payment is established and approved annually by the Board of Education. LSEDC is a public/private partnership formed in 1986 by the District, the City of Lee's Summit, and the Chamber of Commerce. LSEDC by-laws establish the District Superintendent as a board member and Executive Committee member along with the Mayor and City Manager of Lee's Summit, and five private sector business leaders. LSEDC's purpose is to attract and retain*



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*investment which creates jobs and a consumer economy characterized by residential and commercial development. Quality economic development requires qualitative and quantitative services, resulting in the building of a great community to attract and retain local investment. The District will develop a written "Memorandum of Understanding" with LSEDC.*

- 2.2 *The Lee's Summit Educational Foundation (Foundation) was officially established in February 1993. The initial establishment of the Foundation developed from the District's Strategic Plan. At the direction of former and current superintendents and the partnership with community stakeholders, the Foundation has expanded and provides significant alternate resources for district-wide instructional programs. For example, the Foundation was able to provide \$4 million in alternative resources in a capital campaign and partially funded the construction of the District's early childhood center. In addition, the Foundation provides annual resources to fund additional learning opportunities and technology for students and staff. During the 2012-2013 school year, the Foundation contributed approximately \$250,000 for these purposes through its Annual Fund Drive and nearly \$151,000 for before and after school tutoring, robotics, music, and other school programs. Additionally, the Foundation awarded 51 continuing education scholarships to graduating seniors in the amount of \$47,550 and raised another \$25,000 for the Excellence in Education Endowment, which is the Foundation's long-range strategic effort to ensure future alternative resources for district staff and students. The Foundation Board includes the Superintendent, a Board of Education member, and several other district-level administrators. The Foundation annually prepares a report detailing their efforts and impact on District students and staff. The District will develop a written "Memorandum of Understanding" with the Foundation.*

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### **3. Disbursements**

District disbursement procedures need improvement.

#### **3.1 Transportation services**

The district overpaid a transportation service provider. District personnel did not perform a sufficient comparison of invoice billing rates to contractually agreed upon billing rates. For one student the contracted billing rate was \$100 per day, but the contractor billed the district \$130 per day. This error resulted in an overpayment to the contractor of \$510 for January 2013 services provided. After our review, a district official confirmed in April 2013 the contractor billed the district the incorrect amount for the 2012-2013 school year to-date and the contractor planned to reimburse the district for the entire amount overcharged. The district was subsequently reimbursed \$4,095 in June 2013.



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Lee's Summit R-VII School District  
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Adequate monitoring of contract payments is necessary to ensure agreement with contracted amounts and prevent overpayments.

### 3.2 Change orders

The district does not competitively bid significant changes to construction projects when appropriate and does not always approve construction change orders in a timely manner. In addition, the Board does not approve all change orders.

- A paving project completed at Lee's Summit North High School at a cost of \$25,340 was not included in the vendor's original bid proposal. The original bid for \$216,662 was for paving projects at 10 other schools and a waterline project at an eleventh school. A district official indicated unit pricing from the original bid proposal was used as a basis for the change order. While similar to the work originally bid, the Board did not approve the change order and district officials did not sign this change order indicating their approval until at least a week after the work was complete.
- Carpet removal and replacement completed at Meadow Lane Elementary (MLE) third through sixth grade classrooms, totaling \$60,616, was not included in the vendor's original bid proposal. The original \$788,000 bid included a serving line project at Lee's Summit High School and classroom modifications at MLE (estimated to cost \$296,222, including only \$250 for carpet work). A district official indicated replacement of the third through sixth grade classroom carpet was previously identified as a need; however, the carpeting replacement was not included in the original MLE classroom modification proposal. The Board did not approve this change order.

The district does not have a formal written change order policy; however, district officials stated and board meeting minutes indicate the Board made a decision in 2000 to require all change orders exceeding \$10,000 go before the Board.

While change orders often occur on construction contracts, 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. As noted above, district administrative procedure DJC-AP1 requires school districts to advertise bids for construction of facilities that may exceed a disbursement of \$15,000. Bidding of construction of facilities is also required by Section 177.086, RSMo.



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### 3.3 Purchasing cards

The district does not monitor purchasing card transaction limits and limits for some individuals are excessive. The district determines the transaction limits when the cards are issued, but does not periodically review the limits.

The district currently has over 900 purchasing cards assigned to various personnel throughout the district and annual purchasing card expenditures exceed \$6 million. Individual transaction limits range from \$500 to \$50,000 and monthly cycle limits range from of \$1,000 to \$600,000. However, a review of 15 employees' purchasing card transactions determined 10 employees had individual transaction and monthly cycle limits significantly greater than necessary to cover their actual credit card purchases. For example, we noted five employees that had individual transaction limits of \$10,000 each, but the largest single purchase by any of these employees between July 1, 2011, and December 31, 2012, was \$1,620. In addition, the monthly cycle limits for these same five employees was \$15,000 each, but between July 1, 2011, and December 31, 2012, none of the employees made more than \$7,300 in purchases, respectively.

Excessive or unneeded limits and purchasing ability create greater risk of abuse and potential large liabilities for the district. To strengthen controls over purchasing cards, the district should periodically compare the actual purchasing card activity of each employee to established individual transaction and monthly cycle limits. Adjustments to the limits should be made accordingly to reduce the district's risk to an acceptable level.

### Recommendations

The School Board:

- 3.1 Monitor contracts to ensure compliance with contract terms.
- 3.2 Monitor change orders, give consideration to bidding when substantial project changes are needed, and ensure change orders are approved timely.
- 3.3 Evaluate and adjust employee purchasing card limits as deemed appropriate.

### Auditee's Response

*The School Board provided the following written responses:*

- 3.1 *Special services staff responsible for procurement of transportation services have been made aware of the requirement to secure and document pricing and to verify invoices are consistent with service agreements prior to payment authorization.*
- 3.2 *The District agrees change orders should be documented, and signed off by the contractor/vendor, Director of Facility Services,*



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*appropriate Central Office administrator, and/or the Board of Education in a timely manner and current practices and proposed policies should be reviewed for consideration and implementation by the Board of Education.*

*The District has had a long history of minimizing costs on major and minor capital projects due to change orders. There is documentation to that effect for all Bond Issue projects from 2004 to the present. The work within the scope of Change Orders is not bid, rather a negotiation of existing unit prices along with Architect and Construction Manager market price analysis supported the added (or reduced) project cost.*

*The District will review, in Spring 2014, through a Superintendent chartered process action team, the existing change order practices to ensure compliance and consistency with Board Policy and administrative procedures and practices that provide staff the ability to complete projects in a timely manner to avoid additional costs of goods and services. The current District practices consider the cost or value of the change, unit price extensions, unforeseen conditions, impact on the scope of work progress, impact on the targeted completion date(s), and whether or not a contingency situation may exist.*

*District teams are used to identify preferred providers of similar services and prior and current unit pricing. Consideration is also given to other capital projects reviewed and approved through the Non-Allocated Request Process that may "piggy back" on earlier bids. Field judgment and Central Office review, in unusual circumstances, may cause an occasional bypass of accepted change order practice. This could then result in follow up after the work is completed.*

*As presented, all change orders are processed in as timely a manner as possible. They are, however, dependent on both the contractor/vendor and professional services provider processing activities. Change orders, amended contracts, and contingency provisions are monitored on a regular basis, including the District Finance Committee and/or Board of Education review or approval.*

*The Lee's Summit North High School paving was publicly bid and awarded to Calvert's Paving as a part of our annual Capital Projects paving long-range plan. These unit costs were used as a basis for this paving change order. However, staff did not properly process these bids for approval and signature.*



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*The Meadow Lane Elementary classroom modifications were bid by the District, awarded to Heartland Construction, and funded by the Operations Special Capital Projects budget. Limited carpet replacement was included in the original project bid. Additional replacement of deteriorated carpet was previously identified as a need by the site and administrative team. Favorable contractor bids allowed for additional carpet replacement in the third through sixth grade classrooms. A competitive material pricing was provided by Heartland Construction through two flooring suppliers. The Board, in this case, accepted the amendment to the Heartland contract for the additional project work.*

- 3.3 *The District agrees with the recommendation to annually review Purchasing Card utilization and is agreeable to reviewing suggested adjustments to purchasing card limits as may deemed appropriate. The Business Services department annually prepares a comprehensive report for review by the Board of Education. Current limits have not resulted in any fraudulent or excessive expenditure based on internal review of each transaction. All usage of Purchasing Cards and each transaction, is audited internally and no limit concerns have been noted by District Business office staff. The District has received rebates in the amount of \$847,499 over the past nine years. Annually, a Purchasing Card usage report is presented to both the District Finance Committee and the Board of Education.*

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## 4. Vehicle Allowances

The district does not include vehicle allowances paid to several district employees, mostly administrators, in their contracts and the Board does not approve the vehicle allowances. In addition, the district has no documentation to support that vehicle allowance amounts are reasonable compared to actual expenses incurred.

The district has historically paid a vehicle allowance to several employees who use their personal vehicles to conduct official business within the school district. When employees use their personal vehicles to travel outside the district, they receive a separate mileage reimbursement. For the year ended June 30, 2013, the superintendent was provided a district vehicle and his personal usage of that vehicle in calendar year 2012 was reported on his W-2 in accordance with IRS guidelines. Effective with the 2013-2014 school year the superintendent no longer uses a district vehicle, but uses his personal vehicle and receives a vehicle allowance. Our review of vehicle allowances noted the following concerns:

- The district does not include vehicle allowances, other than for the superintendent, in employee contracts and the Board does not approve the allowances as additional compensation. In addition, the district has



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not performed an analysis to ensure the vehicle allowances meet the needs of these positions or are reasonable.

According to district officials, individuals in certain positions (e.g. facility maintenance and operations) typically travel a significant number of miles each month. The district established these vehicle allowances several years ago and they range from \$47 - \$266 per month and totaled \$27,657 for the year ended June 30, 2013.

District officials indicated they have discussed performing an analysis of vehicle allowances.

- The \$15,000 vehicle allowance the superintendent will receive for the year ended June 30, 2014, appears unreasonable. Using the mileage rate allowed by the IRS for business travel during 2013 (56.5 cents per mile), the superintendent would have to travel over 26,000 business-related miles within the school district during the year to earn this vehicle allowance reimbursement. This number of miles is considerably more than the 4,284 actual business-related miles he drove his district-provided vehicle during calendar year 2012.

In order to fully disclose the total compensation of each employee, vehicle allowances provided should be included in annual employment contracts and approved by the Board. In addition, vehicle allowances should be based on a reasonable estimate of miles driven for in-district business purposes.

## Recommendation

The School Board ensure vehicle allowances are included in employee contracts. In addition, the School Board should review vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable employees.

## Auditee's Response

*The School Board provided the following written response:*

*Beginning in April 2013 through June 30, 2013, the District required staff who received the vehicle allowance during the 2012-13 to document their business mileage to determine the appropriateness of the vehicle allowance amount. The analysis was reviewed resulting in the need for additional study to comprehensively address vehicle allowances. District administrative staff is currently investigating options to provide an adequate level of compensation for vehicle allowances while attending to the recommendations within this report. The Board of Education negotiates the Superintendent's contract and no longer provides the Superintendent with a vehicle allowance.*



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## 5. Land Purchase

The district purchased land without properly obtaining an appraisal. In December 2012, after consulting with applicable parties concerning the identification and evaluation of potential sites, the district purchased approximately 51 acres of land to be used for the district's fourth middle school at a cost of \$775,000. The district negotiated this purchase with the seller, and comparable sales pricing and past district site purchase costs were utilized to validate the purchase price. However, without an independent appraisal of property purchased, the district has less assurance the price paid represents the fair value of the property.

To ensure a reasonable price is paid for land, good business practice requires the Board obtain formal appraisals prior to purchase for all potential sites under serious consideration.

## Recommendation

The School Board obtain appraisals prior to purchase for any sites under serious consideration for purchase.

## Auditee's Response

*The School Board provided the following written response:*

*The District agrees that an appraisal, where appropriate, may provide an assurance of reasonable prices for land purchases.*

*The District utilizes a site selection process, under the supervision of the Comprehensive Facility Master Plan (CFMP) Team, to work with individuals, the development community, various municipalities, private property owners, architectural consultants and other organizations and agencies to procure future school sites. The most recently purchased property, a site for a proposed Middle School #4, was compared to five other site options, negotiated for sale, and presented by the CFMP Team to the Board of Education for approval. The budget was estimated at \$1.3 million and purchased at a price of \$750,000. The purchase price per acre was \$15,196 as compared to the \$28,031 average per acre cost of the last three District sites purchased. The District realtor and consultant did not recommend an appraisal. Two school board members serve on the selection team.*

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# Lee's Summit R-VII School District

## Organization and Statistical Information

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The Lee's Summit R-VII School District is located in the southeast portion of the Kansas City metropolitan area. The district covers approximately 117 square miles and serves the communities of Lee's Summit, Greenwood, Lake Lotawana, Lake Winnebago, and a portion of Kansas City, as well as unincorporated areas of eastern Jackson County.

The school district operates 3 senior high schools (grades 9-12); 3 middle schools (grades 7-8); 18 elementary schools (grades K-6); an alternative secondary school; a secondary technology academy; an early education center; and a special-education, day-treatment school. Enrollment was 17,534 for the 2012-2013 school year. The district employed 2,343 regular full- and 159 regular part-time employees at June 30, 2013.

The Lee's Summit R-VII 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, 2013, were:

Ron Baker, President  
Jack Wiley, Vice-President  
Patti Buie, Member  
Phyllis Balagna, Member  
Terri Harmon, Member  
Chris Storms, Member  
Bob White, Member

### Superintendent

The district's superintendent at June 30, 2013, was Dr. David McGehee. His annual compensation was \$258,660, which included a deferred compensation allowance of \$19,716, family medical insurance of \$15,377, and association expenses of \$12,000. He was also provided a district vehicle for business and personal use. The superintendent's compensation is established by the Board.