



Office of Missouri State Auditor  
**Nicole Galloway, CPA**

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**Hazelwood School District**



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of Hazelwood School District

Cash Handling and Accounting Controls and Procedures	Significant improvements are needed in the district's cash handling internal controls and procedures. The district has a finance handbook that addresses cash receipting and depositing procedures. However, the guidance is limited and does not address some important procedures. The district has not or is unable to adequately segregate duties, and documented supervisory or independent reviews of the accounting records are not performed. Significant weaknesses exist in receipting, transmitting, and depositing monies received at some schools. The district does not have a list of approved change funds and the authorized balances or a written policy regarding change funds.
Central High School	Some monies received were not deposited and are missing, some district personnel did not follow Board policy regarding the theft, and the Board did not pursue resolution for the full amount missing. District personnel identified deposits with discrepancies made between August 2015 and October 2016. Improvements are needed in the handling of concession sales and inventory, and popcorn and summer snack sales, and there were unaccounted for differences between sales and amounts deposited.
Attendance Data and Procedures	The district improperly reported attendance resulting in receiving overpayments in state funding of approximately \$95,000. Student attendance is not always calculated accurately and, as a result, the district claimed student attendance hours when students were not present and received excess state monies. The district's attendance system does not limit the time period when changes can be made and there is no review by district officials to ensure changes made to current school year attendance records are appropriate.
Sunshine Law	The district did not always comply with the Sunshine Law and was not always consistent or transparent when notifying the public of board meetings. The public record request log documenting compliance with Sunshine Law requests was not complete. The Board discussed some topics in closed meetings that are not allowable by state law. The Board posted agendas for some "special Board retreat meetings" differently from other meetings and these meetings were not held on set dates or at set locations that would allow the public to otherwise be aware of the meetings.
Disbursements	District controls and procedures over disbursements need improvement. The district made disbursements that did not seem reasonable and/or provide a benefit to the school district. Disbursements were miscoded, invoices lacked proper approval, sales tax was paid on several purchases, and one employee's reimbursement was not accurate.
District Policies and Procedures	Various district policies and procedures need improvement. The district and school offices do not have security controls in place to lock computers after a certain period of inactivity. The district does not have controls and procedures in place to ensure salary schedules are accurate. The district did not solicit bids or proposals for several purchases of goods and services during the 2016-2017 school year.

Capital Assets and Fuel Usage	Controls and procedures over district property and fuel usage need improvement. The district does not always follow its policies and procedures for all capital assets. The district does not reconcile fuel logs to fuel billings.
Chromebook Laptop Computers	The district did not perform a comprehensive cost study for the 2015 Chromebook computer project and the purchase was not properly bid.
Vehicle Allowances	The district has not documented the basis for vehicle allowances, the allowance amounts, and the Associate Superintendent's mileage reimbursement.
Internal Audit Function	The district lacks an internal audit function that could have helped discover and/or resolve the weaknesses addressed in this report and noted by the district's financial auditors.
Board Oversight of District Resources	The Board did not always ensure the efficient use of district resources while the district faced a reduced fund balance.

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

\*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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## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

To the Board of Education  
Hazelwood School District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Hazelwood School District. We have audited certain operations of the district in fulfillment of our duties. The district engaged Kerber, Eck & Braeckel, LLP, Certified Public Accountants (CPAs), to audit the district's financial statements for the year ended June 30, 2017. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2017. The objectives of our audit were to:

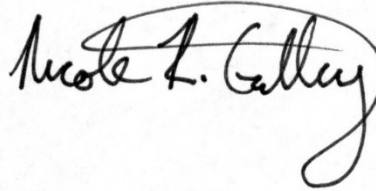
1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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 applicable contract, grant agreement, 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 Hazelwood School District.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Regina Pruitt, CPA
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# Hazelwood School District

## Management Advisory Report

### State Auditor's Findings

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#### **1. Cash Handling and Accounting Controls and Procedures**

Significant improvements are needed in the district's cash handling and accounting internal controls and procedures. District financial records show total student activity collections of over \$1.3 million for the 2016-2017 school year. These are comprised of various monies including student activity fees, athletic fees and event admissions, concession sales, and other monies. These types of receipts are at greater risk because there is a variety of handling and record-keeping methods throughout the schools. As a result of numerous control weaknesses, there is less assurance these monies have been handled and accounted for properly. We reviewed controls and procedures at Central, East, and West High Schools; Garrett Elementary School; Northwest and West Middle Schools; the Central Early Childhood Center; and the finance department.

School secretaries/cashiers are generally responsible for the receipting, recording, depositing, and reconciling of monies collected by teachers and organization sponsors and by school office personnel. Athletic event attendance and concession sales are generally handled by applicable school organizations and later transmitted to the school office. Administrators at each school provide minimal oversight of these functions and records. Further, the finance department performs minimal oversight of receipting and deposit transactions throughout the district.

##### **1.1 Cash handling policies and procedures**

The district has a finance handbook that addresses cash receipting and depositing procedures. However, the guidance is limited and does not address procedures for supervisory review of receipting and depositing, securing monies, counting and reconciling cash drawers, change funds, and record retention. The district also does not maintain an approved listing of employees with access to monies held in secure locations at all facilities. Our review determined cash handling procedures varied by location and identified several significant weaknesses. Sections 1.2, 1.3, and 1.4 discuss these weaknesses and the locations at which they were noted.

A lack of complete overall policies and procedures related to cash handling increases the risk of loss, theft, or misuse of district monies.

##### **1.2 Segregation of duties and reviews**

The district has not or is unable to adequately segregate duties, and documented supervisory or independent reviews of the accounting records are not performed. The school secretary/cashier (Garrett Elementary School, West Middle School, East High School, and the Central Early Childhood Center) receives and records monies and prepares deposits. At Central High School, one school secretary/cashier performs the duties of receiving, recording, and transmitting to the cashier monies collected for popcorn sales, summer snack sales, and transcripts in the registrar's office.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of



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duties is not possible, periodic supervisory or independent reviews of the records should be performed and documented.

### 1.3 Receipts and deposits

Significant weaknesses exist in receipting, transmitting, and depositing monies received at some schools.

#### Receipt slips

Receipt slips are not consistently issued in accordance with district procedures and some receipt slips issued are not accurate or complete. In addition, supporting documentation is not always provided with monies transmitted to school secretaries/cashiers.

- Receipt slips are not issued at the Garrett Elementary School. In addition, receipt slips are not always issued at West and Northwest Middle Schools, and some receipt slips issued at Northwest Middle School are not accurate and complete. Also, Central High School personnel do not issue receipt slips for transcript fees received. As a result, deposits could not be reconciled to supporting documentation. In addition, although monies received at the finance department are entered on a receipt log, the date received is not documented.
- Receipts are sometimes received and transmitted to the secretary or cashier by several employees (teachers and activity sponsors) before deposit and there is not always adequate documentation provided (receipt slips or receipt log) to support the transmittal of monies from one employee to another. We identified this weakness at Central High School, West High School, East High School, Garrett Elementary School, and the finance department.

#### Depositing timely and intact

Receipts are not always transmitted or deposited timely and intact.

- The Central Early Childhood Center did not timely transmit monies to Central High School secretaries for deposit. During our June 2017 cash count, we identified monies on hand totaling \$3,000 (\$1,400 in cash and \$1,600 in checks) that were held and not transmitted for more than 51 days. We also determined monies receipted during the month of July 2017 were held for up to 45 days before being transmitted.
- Monies are withheld by the Central High School athletic department from admission receipts and concession sales to establish change funds to be used for the next event (see section 1.4).
- Monies collected by teachers for student activities and by other office personnel for popcorn and snack sales may be held for extended periods of time prior to being transmitted to the school secretary/cashier for deposit. At Central High School, a former teacher held choir fundraising monies in her desk for an extended period of time before transmitting them to school administrators at their request in February 2016. The dates





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recorded on the receipt slips totaling \$708 ranged from August 2015 to February 2016. The amount transmitted and deposited was only \$543. The difference of \$165 is unaccounted for. In addition, monies collected by Central High School office personnel for summer snack sales and popcorn sales are held and not deposited timely.

**Reconciliation and oversight** Detailed documentation to support deposits is not sent to the finance department as required by district procedures. Also, cash drawers are not always counted and reconciled daily.

School personnel are responsible for preparing deposits for periodic pick-up and delivery to the bank by an armored car service, and for providing details regarding types of monies collected and deposit information to the finance department for coding into the accounting system. Problems were identified with these processes, and with cash drawer and change fund cash count and reconciliation procedures.

- School secretaries/cashiers do not include documentation (a receipt log and/or copies of receipt slips or cash register summary tapes) in the information sent to the finance department to support deposits made by the schools. We reviewed documentation received by the finance department and noted this problem for all schools. As a result, finance department personnel cannot verify the composition of the receipt records or completeness of deposits. For example, Central High School athletic office personnel prepared 7 deposits that required a total of \$758 in corrections by the bank from August 2016 through October 2016 because the deposit slips did not agree to the total monies deposited. In addition, the finance department was unaware cash register tape receipt totals for several deposits prepared by Central High School's office personnel were changed to reduce the deposit amount to the amount of cash on hand, rather than the actual amount of monies collected. This allowed missing monies to go undetected for an extended period (see Management Advisory Report (MAR) finding number 2). District policy requires a copy of the deposit slip and a detailed receipt log (showing receipt slip numbers and receipt sources) be sent to the finance department.
- Cash drawers and change funds are not counted daily at the West High School, West Middle School, Garrett Elementary School, and the Central Early Childhood Center. District personnel indicated they are counted when deposits are prepared which is generally 2 or 3 times a week when the armored car is scheduled to pick up deposits. In addition, required cash count forms (provided by the district) were not used by personnel at West High School, West Middle School, Garrett Elementary School, and the Central Early Childhood Center; and a generic cash count form (not the district form) was used at Central and East High Schools when performing daily cash counts.



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Security of monies

Finance department personnel do not provide adequate physical security over monies on hand. For monies collected directly by the department, the key to the locked file cabinet where those monies are stored is located in an unlocked file cabinet. This key is accessible to numerous employees in the office who do not require access to the monies. In addition, monies transmitted to the school secretaries/cashiers for student activities, athletic events, and other sales are held in cash boxes that do not lock. Also, the district does not maintain a listing of employees at district facilities with access to locked areas where safes are located and who also know safe combinations.

Conclusion

To ensure all monies received are accounted for properly and reduce the risk of loss, theft, or misuse of funds, receipt slips should be issued for all monies received in accordance with district procedures and reconciled to the composition of receipts; and monies should be transmitted timely and intact, and properly secured.

1.4 Change funds

The district does not have a list of approved change funds and the authorized balances, or a written policy regarding change funds.

Change funds at Central High School are not maintained at a constant amount and no independent review is performed. The athletic department secretary indicated cash is retained from cash receipts for change funds and the amount varies. The secretary stated change fund amounts are determined based on the needs for upcoming events. For example, we noted change funds at a football game on October 29, 2016, were \$550, \$526, and \$300; and \$300 and \$350 for a football game on October 22, 2016. In addition, we identified, the change fund at the Central High School main office was \$21.64 above its established amount of \$200 in a April 20, 2017, cash count. The cashier stated the change fund continuously fluctuates.

To safeguard against possible loss, theft, or misuse of funds, procedures should be established to properly account for change funds.

Recommendations

The Board of Education:

- 1.1 Establish comprehensive policies and procedures that address all aspects of the cash receipting and depositing processes, and ensure district personnel perform continuous oversight and monitoring for compliance with policies and procedures.
- 1.2 Adequately segregate accounting duties or ensure documented supervisory or independent reviews of detailed accounting records are performed.
- 1.3 Ensure monies are properly receipted, transmitted, and deposited timely and intact; receipt slips indicate the method of payment; and receipts are reconciled to the composition of deposits. Also, the



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Board should ensure supporting documentation is submitted and reconciled to the transmittal or deposit information, cash drawers are counted daily, and monies are properly secured.

- 1.4 Develop written procedures for establishing and maintaining change funds that identify lists of established funds and authorized amounts, require maintenance of change funds at constant amounts, and address periodic counting and reconciliation procedures.

## Auditee's Response

- 1.1 *The district agrees with the recommendation. The district will review and expand on current policies and procedures, including the finance handbook, in order to ensure that they address all aspects of the cash receipting and depositing processes and to ensure that district personnel perform continuous oversight and monitoring for compliance. The policies and procedures will provide a set of standardized accounting guidelines, procedures, and safeguards to reduce the risk of loss or theft. In addition, the policies and procedures will contain guidance on cash receipts, deposits, record retention/support, positions responsible at each site, segregation of duties and security of funds, internal review/reconciliation and oversight process, and required training for all staff responsible for cash handling prior to assuming duties.*
- 1.2 *The district agrees with the recommendation. In addition to the overall procedures noted in section 1.1, the district will review the segregation of duties at each site. Where staffing allows, financial duties will be segregated. Where it is not possible or financially reasonable, the district will initiate procedures that detail supervisory reviews of accounting records. The procedures will include the audit/review chain of the records as well as guidelines for the timely supervisory review of records.*
- 1.3 *The district agrees with the recommendation. As noted in MAR finding number 10, the district plans to restructure the finance department and specifically assign duties to an employee who is involved in the daily review of operations and activities including accounting guidelines, procedures and safeguards to reduce the risk of loss or theft, cash receipts, deposits, record retention/support, positions responsible at each site, segregation of duties and security of funds, internal review/reconciliation and oversight process, and required training for all staff responsible for cash handling prior to assuming duties. The staff member assigned will develop guidelines for training new staff as well as annual training and updates for all staff. The assigned staff member will also identify processes and procedures that require review and updates, periodically visit*



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*buildings to ensure that procedures are being implemented, and be available for questions and retraining as necessary.*

*The district will review and update procedures which will provide a set of standardized accounting guidelines, procedures, and safeguards to ensure that monies are properly receipted, transmitted, and deposited timely and intact. The procedures will contain guidance on cash receipts, deposits, record retention/support, positions responsible at each site, segregation of duties and security of funds, internal review/reconciliation and oversight process, and required training for all staff responsible for cash handling.*

*The district will review and revise procedures to ensure that accurate receipt slips are consistently issued, that supporting documentation is provided, and that records support the transmittal of monies from one employee to another. In addition, district procedures will outline expectations for the depositing of monies in a timely manner.*

*The district will review procedures and provide training to ensure that detailed documentation to support deposits is sent to the finance department. These procedures will address the need to count cash drawers and reconcile them daily.*

*The district has already addressed the issue of the key in the unlocked file cabinet. The district will develop a list of employees at district facilities with access to locked areas where safes are located and who know safe combinations.*

- 1.4 *The district agrees with the recommendation. The district will develop written procedures for establishing and maintaining change funds. The procedures will identify lists of established funds and authorized amounts, provide procedures for maintenance of change funds at constant amounts, and provide for periodic counting and reconciliation. In addition, the policies and procedures will contain guidance on cash receipts, deposits, record retention/support, positions responsible at each site, segregation of duties and security of funds, internal review/reconciliation and oversight process, and required training for all staff responsible for cash handling.*

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## **2. Central High School**

Some monies received were not deposited and are missing, some district personnel did not follow Board policy regarding the theft, and the Board did not pursue resolution for the full amount missing. In addition, monies collected for concession, popcorn, and snack sales were not properly secured and records indicate all sales proceeds may not have been deposited. Also, inventory procedures are not adequate.



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2.1 Undeposited cash receipts

District personnel identified deposits with discrepancies made between August 2015 and October 2016. The discrepancies totaled \$8,175. The former Central High School Principal admitted to taking an unspecified amount of monies and repaid \$3,080. The additional \$5,095 received and not deposited is also likely missing. The district did not pursue repayment for this additional amount.

We obtained documents related to the missing monies from the district's internal investigation (further details follow) and from other school personnel including receipt information and written statements provided to the district by various employees. Available cash register tape totals provided by Central High School employees and the Associate Superintendent of Human Resources showed the total amount receipted that should have been deposited. However, handwritten notations were made on the tapes to indicate the amount receipted should be reduced to the amount of monies actually on hand for deposit. The cashier and secretary indicated they manually adjusted the register totals to equal the actual amount deposited as directed by the former principal. The following chart shows cash receipts recorded in the school's cash register, amounts deposited, deposit shortages, and the amount repaid by the former principal.

Missing Monies

Date Received	Register Totals	Amount Deposited	Deposit Shortage
August 5, 2015	\$ 2,177	1,874	303
August 13, 2015	2,414	2,261	153
September 3, 2015	4,864	4,667	197
September 10, 2015	9,640	9,402	238
September 14, 2015	2,004	1,853	151
October 7, 2015	626	346	280
October 28, 2015	5,735	5,223	512
November 4, 2015	1,881	1,815	66
April 11, 2016	10,776	8,904	1,872
April 21, 2016	8,420	8,335	85
April 25, 2016	22,000	21,000	1,000
June 30, 2016	2,541	2,303	238
July 25, 2016	5,625	4,455	1,170*
July 26, 2016	3,865	3,585	280*
July 26, 2016	430	225	205*
July 27, 2016	5,570	5,150	420*
July 27, 2016	921	828	93*
July 28, 2016	1,138	618	520*
August 22, 2016	1,777	1,735	42*
September 16, 2016	2,432	2,332	100*
October 19, 2016	1,466	1,216	250*
Total	\$ 96,302	88,127	8,175

\* The district obtained repayment for these amounts, totaling \$3,080, in November 2016.



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Internal investigation

In October 2016, the Associate Superintendent of Human Resources conducted an investigation into missing monies from receipts collected at the Central High School administration/cashier's office. The former cashier, school office secretary, and athletic director were interviewed and provided written statements and supporting documentation detailing several deposits with shortages. Employees provided statements to the Associate Superintendent of Human Resources that the former principal had access to the room where the safe holding the monies was located and had known the combination of the safe since March 2015. In addition, employees stated each time there was a shortage they informed the former principal. However, the shortages were never reported to security, district administrators, the Superintendent, or the Board as required by policy. Employees also stated the former principal told them district administration did not need to be informed.

During the investigation the former principal was found to be in violation of Board policies and placed on administrative leave. Shortly thereafter, the former principal admitted to taking monies and repaid the amount identified as missing from the period July 2016 through October 2016 (as shown in earlier table). She resigned effective October 27, 2016, and paid \$3,080 to the district in November 2016. The district did not attempt to collect additional missing monies from April 2015 through June 2016, totaling \$5,095. The Associate Superintendent of Human Resources indicated the district did not attempt to collect any of the additional missing monies from prior years from the former principal because district personnel did not believe they had sufficient evidence to prove she had taken those monies. In addition, the Board stated it agreed to this decision and discussed contacting law enforcement with district legal counsel and decided against it; however, there was no supporting documentation indicating these Board decisions.

Conclusion

Several weaknesses and lack of internal control policies and procedures (see MAR finding number 1) as well as a failure of personnel to follow existing policy for reporting suspected fraud created a situation that allowed theft to occur and remain undetected for a significant period of time. Further, both not pursuing full repayment of missing monies and not pursuing law enforcement involvement allowed the former principal to resign without penalty and remain potentially eligible for retirement.

Internal controls are necessary to adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds. Board policy DA requires any person with reasonable cause to suspect fraud to report the suspicion to the superintendent immediately, and for the superintendent to investigate the suspected fraud and report the information to the Board if the allegations are substantiated. The policy also provides for the Board to contact law enforcement after consultation with the superintendent and legal counsel. Section 105.669, RSMo, provides that participants of any retirement plan established by the state or any political subdivision who are convicted of



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felony stealing related to duties directly related to employment of over \$5,000 in money, property, or services are ineligible to receive retirement benefits from the plan.

## 2.2 Concession sales and inventory

Improvements are needed in the handling of concession sales and inventory, and popcorn and summer snack sales. Monies are collected, counted by sponsors, students, or school employees and transmitted to a school cashier for receipting and preparing deposits.

### Sales procedures and records

The school uses cash boxes that do not lock to store monies collected during concession, summer snack, and popcorn sales and no sales records are maintained to track receipts. As a result, cash receipts are not secure, personnel cannot reconcile receipts to transmittals or deposits, and there is no assurance all monies collected are deposited.

We reviewed popcorn and summer snack sales for the 2016-2017 school year and determined the amount transmitted was less than the estimated sales based on inventory used. Popcorn sales receipts deposited totaled \$1,752. Based on the amount of popcorn sold we estimate the profit should have been \$5,643,<sup>1</sup> \$3,891 more than deposited. Summer snack sales receipts deposited totaled approximately \$1,951. The school estimated the profit for the summer snacks purchased and sold to be \$2,456, \$505 more than deposited. School personnel responsible for the sale and monitoring of the monies collected could not account for these differences.

To ensure monies are accounted for properly and transmitted or deposited, receipts should be secured and sales records should be used and reconciled to monies collected.

### Inventory

School and district personnel do not maintain perpetual inventories for concession, popcorn, or summer snack sales or reconcile inventories to purchases. District personnel only perform a weekly check to determine what merchandise is needed.

Loss, theft, or misuse of school inventory may go undetected without adequate inventory records and documented reconciliations. Effective inventory internal controls require maintaining perpetual records of all inventory items and performing a reconciliation of these records to the balances obtained during the physical inventory count.

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<sup>1</sup> The estimated profit was calculated by determining the approximate number of bags of popcorn yielded from prepackaged popcorn, 6,192, and sold at \$1.00 dollar per bag, \$6,192, and deducting the actual cost of the product purchased, \$549, resulting in an estimated profit of \$5,643. According to district personnel there was no unopped prepackaged popcorn remaining in inventory, so our calculations assume all was sold.



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## Recommendations

The Board of Education:

- 2.1 Ensure any future incidents of missing monies are investigated including pursuing full repayment and law enforcement involvement as appropriate. The Board should also ensure compliance with policy regarding reporting of instances of suspected fraud.
- 2.2 Ensure monies are properly receipted and establish procedures to provide assurance all monies received from sales made at schools are transmitted for deposit intact. In addition, the Board should ensure school personnel maintain inventory records and inventory balances are reconciled to purchases and sales.

## Auditee's Response

- 2.1 *In relation to the incident noted in the report, district central office personnel did follow existing Board policy. In addition, personnel who failed to follow Board policy DA by failing to report the theft were properly reprimanded. After consultation with the superintendent and legal counsel, the Board made a decision not to notify law enforcement as the amount that could be substantiated regarding the individual was below the \$5,000 requirement. As the investigation revealed numerous rumors and innuendos, the district was unable to substantiate the sources of the missing \$5,095 which resulted in a lack of adequate proof to pursue restitution beyond that which was collected. Therefore, in summary, the district followed Board policy, consulted with legal counsel, and pursued and received restitution for the amounts it could confirm.*

*Regarding the recommendation, the district always agrees that any incidents of missing monies should be investigated and agrees with pursuing full repayment and involving law enforcement as appropriate. In the event of any future incidents, the Board will continue to ensure compliance with the policy regarding reporting instances of potential fraud.*

- 2.2 *The district agrees with the recommendation. As noted in responses to MAR finding number 1, the district will review and expand on current policies and procedures in order to ensure that they address all aspects of the cash receipting and depositing processes and to ensure that district personnel perform continuous oversight and monitoring for compliance. The policies and procedures will provide a set of standardized accounting guidelines, procedures, and safeguards to reduce the risk of loss or theft, including maintenance and review/reconciliation of inventory to purchases and sales. There will also be additional training and more supervision.*

*The district will purchase locking cash boxes and require their use as part of the procedures for sales of various products and tickets. In*





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*addition, the procedures will outline the use of sales records so that cash receipts can be reconciled against sales and inventory can be tracked. Included in the procedures will be a format for tracking inventory that will be required for all entities.*

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### 3. Attendance Data and Procedures

The district improperly reported attendance resulting in receiving overpayments in state funding of approximately \$95,000. In addition, the district does not have procedures to limit when changes can be made to the attendance system and does not review changes made.

Our review of codes entered into the system and subsequent changes showed the initial coding and changes made by teachers and/or secretaries are in accordance with the district attendance handbook. However, the district's attendance system is not programmed to deduct time when appropriate. As a result, the district's reporting conflicts with state Department of Elementary and Secondary Education (DESE) guidelines.

#### 3.1 Attendance hours

Student attendance is not always calculated accurately, and as a result, the district claimed student attendance hours when students were not present and received excess state monies. We reviewed the 2016-2017 school attendance records for Central High School, West High School, East High School, and Northwest Middle School and determined time is not deducted from student attendance hours for students arriving after "grace periods" and when they are not in attendance for part of the school day.

Teachers can only record students not in attendance at the beginning of class as tardy by marking a "T" (arrived late but within the grace period<sup>2</sup>) or absent by marking an "A" in the system. If a student comes to class after being marked absent, the "A" is removed and the full amount of class time is credited although the student was not present for the entire class period. School secretaries also change the "A" to "C" for cut if a student is absent for one class but attended the class before and after. No time is deducted from the student's attendance hours when hours are coded as "C" and the district receives credit for the student's attendance even though the student is not present. District personnel stated this is because the student is considered to be on campus even though not in class and a student on campus is considered to be under school supervision. This is not consistent with DESE guidelines that indicate the student should be under the direct supervision of a certified employee to be considered in attendance.

We determined the district overstated student attendance hours for the 4 schools by approximately 14,787 hours for the 2016-2017 school year by not

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<sup>2</sup> The grace period for students to be considered on time for class is no later than 5 minutes after class officially begins.



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reducing attendance hours for students who did not attend class. The estimate was calculated using student attendance records coded with "C" indicating they were not in attendance during class time. Because attendance hours are used to determine state funding, in part, the overstated student attendance hours resulted in approximately \$95,000 in excess state funding for the 4 schools. If additional years or schools were reviewed the amount would likely be more. The following is a breakdown of overstated attendance hours by school.

School	Hours Not in Attendance
West High School	8,420
Central High School	4,469
East High School	1,512
Northwest Middle School	386
Total	14,787

Further, if a student arrives for his or her first class after the tardy grace period, no time is deducted from the student's attendance hours. In these cases, the time is coded as "T" (tardy) or "Q" (tardy excused), but the attendance system does not deduct time for the period the student was not in attendance when these codes are used. Grace period times used for the beginning of the day are significantly different than the 5 minute classroom grace period used by teachers. Class times are 45 minutes for middle school and 90 minutes for high school. Grace period times vary significantly between elementary (33 minutes, arriving 9:23 a.m. or earlier), middle (23 minutes, arriving 8:33 a.m. or earlier), and high schools (50 minutes, arriving 8:20 a.m. or earlier) and no documentation was available to determine how the grace periods and times were determined. We noted 1,182 student attendance records at the 4 schools reviewed were marked tardy using the "T" or "Q" code with no time deducted. This represents additional time claimed by the district as attendance when the students were not present. We were unable to quantify the amount due to the varied times of arrival and grace periods.

Accurate attendance data is necessary to ensure the district complies with applicable state and federal guidelines and appropriately claims state funding. Attendance hour reporting guidelines distributed by the DESE state, "Students must be in attendance in an instructional capacity under the direct supervision of a certificated employee of the district to be counted for attendance purposes." In addition, DESE guidelines state a district must collect attendance and absence hours in a consistent manner either by the minute or hour and the guidelines do not include provisions for "grace periods."

### 3.2 Attendance procedures

The district's attendance system does not limit the time period when changes can be made and there is no review by district officials to ensure changes



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made to current school year attendance records are appropriate. The risk of erroneous changes significantly affecting attendance reports submitted to the DESE is increased due to the extended time period during which changes can be made along with the lack of review procedures.

District procedures require recording of daily student attendance in the attendance system by each teacher or by a school secretary when a teacher is absent. The attendance secretary at each school generates a daily summary report to ensure all attendance has been entered. Changes after that day have to be made by the attendance secretary. However, changes to the attendance records can be made anytime by the attendance secretary during the current school year. Currently the attendance system cannot generate a detailed summary report documenting all changes made, further limiting the district's ability to monitor this information.

Correcting attendance data is necessary to ensure accuracy in the reporting process and any changes must be made before attendance can be certified to the DESE. However, review and approval of all changes is necessary to ensure reliability of the data.

## Recommendations

The Board of Education:

- 3.1 Ensure the district corrects attendance records and complies with DESE attendance guidelines. In addition, the Board should develop a formal policy on how to record the attendance of students who arrive late for class and ensure such policy meets DESE guidelines.
- 3.2 Implement additional controls and procedures to ensure student attendance data is accurately recorded and reported, including restricting the time period when changes can be made without authorization. The Board should also ensure the attendance system is programmed to generate an audit trail report or report of changes, and that this report is reviewed for accuracy.

## Auditee's Response

- 3.1 *The district agrees that attendance records should comply with DESE attendance guidelines and will review policies and procedures to ensure that this is occurring. As part of the initial review, the district is correcting the issue related to the "C" ("Cut") attendance code. This occurred when a student attended a period, missed or cut a period, then attended the next period, and was assumed to be present and in the school for the missed/cut period. As a result of this correction, a "C" will not receive any credit for attendance going forward.*

*However, the district followed DESE guidance regarding the "late arrival" issue. During the 2015-16 school year the district sought additional guidance from DESE and has an email dated February 5,*



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*2016, which states that "If a student is late, for whatever reason, but arrived in time for the majority of the class period, they could be counted 'tardy' in your system but present for the class period." The district already developed its procedures for recording the attendance of students who arrive late to class based on this guidance. This procedure and the times noted are based on students who arrive and attend for the majority of the class period. Although the current procedure appears to allow a student to be tardy for more than a majority of the first period, this is due to the procedure being based on averages for all schools. Therefore, the district will update its procedure so that the minutes reflected clearly indicate that students must be in attendance for a majority of the period in order to be counted present.*

- 3.2 *The district agrees student attendance data must be accurately recorded and accurately reported. However, limiting the time frame during which corrections can be applied could run counter to the goal of accuracy. While the software already allows for some tracking, the district is reviewing further options for detailed audit trail documentation with the software vendor. The district will implement a procedures which will require administrative approval of any changes after a specified number of days and administrative review of the change log/audit trail by the building principal or his/her administrative designee on a regular, timely basis. The district is committed to the intent of the recommendation to create, maintain, and report accurate student attendance data.*

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## 4. Sunshine Law

The district did not always comply with the Sunshine Law and was not always consistent or transparent when notifying the public of board meetings.

### 4.1 Sunshine Law requests

The public record request log documenting compliance with Sunshine Law requests was not complete. We noted 4 requests from media outlets were not recorded in the log.

To ensure compliance with Sunshine Law request requirements, the district should document adequate information in its log to determine if requests are completed timely and adequately completed.

### 4.2 Closed meetings

The Board discussed some topics in closed meetings that are not allowable by state law. According to minutes of closed meetings, unallowable topics included graduation dates and times, polling the Board and by consensus agreeing to allow the administration to pay bills, and acquiring consulting services for the Chief Financial Officer. The Board also discussed the overall budget impact of changes in custodial positions in a closed meetings which may be unallowable. The Board did not maintain sufficient documentation to demonstrate how this discussion in a closed meeting would be allowable under the law.



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Section 610.022, RSMo, mandates that the discussion topics and actions in closed meetings must be limited to only those specifically allowed by law as announced in the justification for closing the meeting.

### 4.3 Agendas for Board retreat meetings

The Board posted agendas for some "special Board retreat meetings" differently from other meetings and these meetings were not held on set dates or at set locations that would allow the public to otherwise be aware of the meetings. The agendas for 5 of the 6 special Board retreat meetings held between July 2016 and June 2017 were not posted on the district's website like other meetings. Rather, district personnel indicated agendas for the special Board retreat meetings were physically posted at the administration building and the location where the meeting would be held. These meetings were held periodically on varied dates and at varied locations throughout the year so the public could not readily anticipate when or where such a meeting would be taking place without the agenda posting. As a result, the district was not open and transparent when informing district residents of all Board meetings allowing them to participate in matters affecting the district.

Consistent procedures for posting agendas are essential to provide transparency of the date and location of all Board meetings, and ensure the public is informed. In addition, Section 610.020, RSMo, requires all public governmental bodies give notice of the time, date, and place of each meeting, and its tentative agenda, in a manner reasonably expected to advise the public of the matters to be considered.

## Recommendations

The Board of Education:

- 4.1 Maintain and update the public record request log.
- 4.2 Ensure items discussed in closed meetings are allowable topics under state law and adequately documented as such.
- 4.3 Ensure the process for posting agendas for all Board meetings is consistent to ensure the public is informed of all upcoming meetings.

## Auditee's Response

- 4.1 *The district has complied with all public requests under the Sunshine Law. However, while it is not required by the Sunshine Law, the district will maintain and update a public request log as recommended.*
- 4.2 *The district agrees that it should ensure that items discussed in closed meetings are allowable topics under state law and that it should adequately document these proceedings. However, the district does not agree with the concerns noted regarding the Chief Financial Officer's services and custodial positions. Those discussions were appropriate as individual names were discussed, making it an allowable closed meeting exception. While the Chief Financial*



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*Officer's services were through a consultant, there was discussion of specific individuals to serve in that role as well as a current employee who was serving as the interim director and leaving the position, which created the need for the consultant. The district acknowledges the items noted regarding the payment of bills and the graduation announcement were not appropriate for a closed meeting; however, this was atypical and not normal district practice as it occurred due to a disruption in the regular Board meeting. In the future, the district will maintain sufficient documentation to demonstrate that the discussion in a closed meeting is allowable.*

4.3 *The district has complied with Board meeting posting requirements under the Sunshine Law. Agendas for Board retreats were posted at the administrative building and at the meeting location, as are all agendas. The district agrees that the public should be informed of all Board meetings and will ensure that the process for posting agendas for meetings is consistent by posting Board retreats on the website as well. However, while the district understands the purpose of the recommendation, the district has followed Sunshine Law posting requirements.*

## Auditor's Comment

4.2 The district closed the meetings for discussions of contracting for consulting services and custodial staff under Section 610.021(3), RSMo. This provision permits the closure of Board meetings for the hiring, firing, disciplining, or promoting of particular employees by a public governmental body when personal information about the employee is discussed or recorded. As used in this subsection, the term "personal information" means information "relating to the performance or merit of individual employees." The discussion of contracting for a consultant was not a discussion involving a district employee; therefore, the discussion was not allowable in a closed meeting. Any discussion of other individuals was not documented in the closed meeting minutes. Sufficient documentation should be included in meeting minutes to demonstrate compliance with closed meeting requirements. Additionally, the meeting minutes documenting the discussion of custodial staff referred to above do not include individual names and only include a discussion of the budget impact of custodial staff attrition and reduced hours.

## 5. Disbursements

District controls and procedures over disbursements need improvement.

### 5.1 Questionable disbursements

The district made disbursements that did not seem reasonable and/or provide a benefit to the school district.



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Missouri School Board  
 Association conference

The district spent at least an additional \$1,301 to have a district security guard drive Board members and the Superintendent to the Missouri School Board Association (MSBA) conference (4 days and 3 nights at the Lake of the Ozarks) in September 2016. The district did not perform a comparison of the individual travel costs of Board members to the cost of having the district provide the transportation. The table below compares the lodging and travel costs for the security guard to drive the Board members to mileage costs assuming each Board member drove his or her own vehicle.

Expenses	Amount
Van rental	\$ 471
Fuel	35
Salary (using hourly overtime rate of \$34.14)	1,562
Lodging	487
Meals	69
Subtotal	2,624
Less: Potential mileage reimbursements to Board members	(1,323)
Total Additional Cost	\$ 1,301

Charity auction

The district paid \$200 to purchase 5 tickets for a charity dinner auction at Trinity Catholic High School in October 2016. The purpose of the auction was to raise money for the catholic school. The disbursement was also miscoded as general supplies in the accounting system. Using district funds to make donations and raise money for private schools is not a reasonable and prudent use of taxpayer monies.

Retirement party

District personnel used the district credit card to pay \$373 for a retirement party at a local casino restaurant in May 2017. The receipt provided was only the credit card slip that showed total paid and did not include itemized information to show what was purchased or how many people were served. District officials stated that the Soft Drink Fund student activities monies were used so the purchase was appropriate. However, these monies are still district monies earned through soft drink sales from a district contract.

Board and Office of the  
 Superintendent disbursements

We reviewed all disbursements for the 2016-2017 and 2015-2016 school years allocated to the Board and the Office of the Superintendent. We noted disbursements for sympathy flowers, sympathy cards, meals, gifts, additional airline fees, t-shirts, sales taxes, excessive tipping, valet parking, bellhop and room tips, and various travel expenditures that, while possibly appropriate, should be reviewed to ensure they are the best use of district resources. The following tables document the specific disbursement categories that should be reviewed for reasonableness.



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Board of Education

Disbursement Category	School Year 2015-2016	School Year 2016-2017	Total
Other Purchased Services <sup>1</sup>	\$ 29,416	29,024	58,440
Travel Airline	1,354	0	1,354
Travel Meals	170	94	264
Travel Transportation	627	1,472	2,099
Dues and Memberships	146,981	102,314	249,295
Meeting Expenses	11,796	10,704	22,500
General Supplies	2,219	679	2,898
<b>Total</b>	<b>\$ 192,563</b>	<b>144,287</b>	<b>336,850</b>

<sup>1</sup> Other purchased services include flowers, meals, gifts, and t-shirts.

Office of the Superintendent

Disbursement Category	School Year 2015-2016	School Year 2016-2017	Total
Other Purchased Services <sup>1</sup>	\$ 474	288	762
Local Mileage and Expenses	2,982	1,846	4,828
Admin Travel Cost	2,031	6,218	8,249
Admin Travel Lodging	2,906	1,514	4,420
Admin Travel Meals	1,208	106	1,314
Admin Travel Transport	1,708	595	2,303
Admin Travel Miscellaneous	230	197	427
Meeting Expenses	12,498	6,177	18,675
General Supplies	7,833	1,766	9,599
<b>Total</b>	<b>\$ 31,870</b>	<b>18,707</b>	<b>50,577</b>

<sup>1</sup> Other purchased services include flowers, meals, gifts, and t-shirts.

Conclusion

While some expenditures may be appropriate, the district should continually review and evaluate the disbursements included in these categories when considering budget decisions in the future and ensure taxpayer money is used for the benefit of the students. Disbursements benefitting students may include additional technology, classroom resources, or additional opportunities for field trips. For comparison, per district officials, a field trip for an elementary school class of 25 to the St. Louis zoo would cost the district approximately \$220. Based on this, the district could pay for 749 elementary class zoo field trips (approximately 18,725 students total) with the 2016-2017 school year disbursements shown in this section. Also, total disbursements in these categories substantially decreased between the 2015-2016 and 2016-2017 school years indicating some expenditures may not have been necessary. Additionally, Board policy GCQD notes that while the Board encourages staff members to become involved in professional organizations, the demands of the organization may become a budgetary factor. A similar consideration should be given to the cost of membership, dues, and travel related to Board membership in professional organizations.





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Public funds should be spent only on items necessary and beneficial to the district and enhance the education process. District residents have placed a fiduciary trust in their public officials to spend district revenues in a prudent and necessary manner. Adequate controls should be in place to properly monitor these disbursements to ensure accuracy, necessity, and reasonableness.

## 5.2 Disbursement controls

Disbursements were miscoded, invoices lacked proper approval, sales tax was paid on several purchases, and one employee's reimbursement was not accurate. We tested 135 district disbursements totaling \$186,494 from the 2015-2016 and 2016-2017 school years and identified various problems.

- Three invoices totaling \$2,449 were miscoded when entered into the accounting system for payment. A hotel bill for \$2,104 was miscoded to a function account number not listed in the chart of accounts, airline tickets costing \$320 were coded to conference fees, and meal expenses for \$25 were coded to local mileage. Inaccurate coding prevents disbursements from being properly classified for reporting purposes and may misrepresent the actual types of disbursements made.
- The district paid \$508 in state sales tax on 52 transactions which included \$222 in sales tax charged on 4 hotel rooms and \$61 for car rentals.
- Three invoices totaling \$555 for travel reimbursements did not have documented approval from a supervisor and 2 invoices for \$174 for mileage were approved by the employees being reimbursed. In addition, 1 of the 3 travel reimbursements, which was not approved, was overpaid \$56 because the district did not take into account the travel advance already provided. District officials were unaware of the overpayment. Per district officials, this amount was repaid in October 2017.

To reduce the possibility of fraud or misuse of district assets, the Board should ensure disbursements are accurate, correctly coded, approved, and comply with district policy.

## Recommendations

The Board of Education:

- 5.1 Ensure costs incurred by the district are necessary and a prudent use of taxpayer monies.
- 5.2 Ensure disbursements are properly coded and approved and sales tax is not paid.

## Auditee's Response

- 5.1 *The district agrees that it should always ensure that costs incurred by the district are necessary and a prudent use of taxpayer monies. At the same time, the district believes that there is some additional*



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*context to the concerns outlined in the audit. First, regarding the MSBA conference, the district security guard attended for the purpose of assisting physically disabled Board members. Second, regarding the charity dinner auction, this was not a donation but was participation in a community event to which the district has historically sent representatives. Third, while the district understands the concern regarding the school level retirement party for a teacher with decades of service to the district and its students, the use of profits from soft drink sales have traditionally been given more flexibility regarding the expenditure of funds at the school level. However, the district will review the use of soft drink funds. Finally, the Board consistently reviews expenditures for appropriateness and approves all bills for payment at Board meetings. The audit report did not indicate that the Board expenditures were inappropriate, rather the audit report outlined recommendations to review and evaluate expenditures, which the district already does and will continue to do. For example, regarding the sympathy cards and flowers noted in the audit report, the Board believes they are appropriate and show concern and care when a staff member suffers a death in the immediate family. The cost is modest and monitored. In addition, the Board – as it is believed is practice with most boards – has a modest meal available before the Board meeting since meetings are in the evening and most Board members come directly from work or other commitments.*

*Finally, a number of other expenses, while noted as possibly appropriate, were identified in the items audited over a two-year period and are explained below. Some of these expenses included:*

- T-shirts – These are shirts with the district logo which the district has purchased for Board members to represent the district at events. Much like items with specific logos are purchased for schools, this is part of representing the district in a professional manner. Costs are modest and moderate.*
- Materials shipped to home – This was the shipping of materials to an activity sponsor's home, which occurred because the activity had a competition over the holidays and the school sponsor would not have been able to pick up the item at the school as it was closed.*
- Airline fees – The district has put a procedure in place where any extra fees charged at the time of a reservation, unless necessary due to physical limitations, are to be reimbursed to the district. This has been in place for over a year.*



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- *Excessive tipping – The district will review and recommunicate its tipping policy and require reimbursement from any staff who exceeds the policy.*

*In addition, there was an example of the number of zoo trips that could be taken with the district funds. Hazelwood School District students participate in multiple enrichment activities throughout the year, and the district will continue to support such activities, which may or may not include attending the zoo. As noted, there are a variety of ways in which funds may be spent which are necessary and beneficial to the district and those will continue to be reviewed. What was not noted in the audit report was that a significant portion of the identified funds were for the district's memberships in the Missouri School Board Association, the Missouri School Board Association policy service, Education Plus (a St. Louis area school district cooperative), and the National School Board Association, all organizations that serve to assist and guide boards and districts towards success.*

- 5.2 *The district agrees with the recommendation. As noted in responses to MAR finding number 1, the district will review and expand on current policies and procedures in order to ensure that they provide a set of standardized accounting guidelines, which will include procedures to ensure that sufficient supporting documentation is maintained, disbursements are properly coded and approved, and sales tax is not paid. The position outlined in the response to MAR finding number 10, as well as other financial department staff, will consistently review expenditure codes for accuracy and appropriateness and review expenditures to ensure sales tax is not included in cases where the vendor does honor the tax-exempt status, as some out-of-state vendors do not.*

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## **6. District Policies and Procedures**

Various district policies and procedures need improvement.

### **6.1 Electronic data security**

The district and school offices do not have security controls in place to lock computers after a certain period of inactivity. Inactivity controls are necessary to reduce the risk of unauthorized individuals accessing unattended computers and having potentially unrestricted access to programs and data files. Without effective security controls, there is an increased risk of unauthorized access to computers and the unauthorized use, modification, or destruction of data.

### **6.2 Salary schedules**

The district does not have controls and procedures in place to ensure salary schedules are accurate. In accordance with Board policy, the Director of



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Human Resources (HR) compiles 12 salary schedules for various titles/functions (e.g., teachers, administrators, supervisors) and provides the schedules to the Board for approval in the spring prior to the upcoming school year. There is no review process for the salary schedule calculations prior to Board approval. The HR Department creates employment contracts based on the approved salary schedules.

The Board approved a 1 percent increase to all salaries on the 2016-2017 school year salary schedules. We recalculated the salary schedule amounts to determine if the increases were properly implemented and determined several salary pay steps for clerical employees were not increased by the approved percentage. For example, 2 salary steps decreased by approximately 1 percent and 2 salary steps increased by 2.38 and 5.3 percent. We also noted several rounding errors and inconsistencies when calculating salaries. Several salaries were rounded up to an amount higher than the next whole dollar or rounded up when they should have been rounded down.

Accurate salary schedules are essential to ensure all employees receive the correct compensation.

### 6.3 Competitive bidding

The district did not solicit bids or proposals for several purchases of goods and services during the 2016-2017 school year. District personnel have not solicited proposals for legal services since 2005. The district paid \$1,050,071 for legal services during the 2016-2017 school year. Additionally, purchases for mulch and swimming pool products were not bid. The district spent a total of \$22,400 and \$12,528, respectively, with mulch and swimming pool product vendors during the 2016-2017 school year. Also, a plumbing repair for \$5,576 was not bid. District personnel indicated this was an emergency repair; however, this was not documented. Since these items and services are readily available from multiple vendors, the district could benefit from a more competitive procurement process.

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. District policy DJF-2 states, "employees are expected to contact multiple providers before making a decision regarding purchases under \$3,500. Purchases of \$3,500 or more will be competitively bid informally, and sealed bids will be required for purchases that may exceed \$15,000."

## Recommendations

The Board of Education:

- 6.1 Ensure computers have security controls in place to lock the computer after a certain period of inactivity.
- 6.2 Ensure procedures are implemented to review all employee salary schedules for accuracy and completeness.



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## Auditee's Response

- 6.3 Ensure all significant purchases of goods and services are subject to a competitive procurement process. If it is necessary to purchase goods or services from a sole source vendor or on an emergency basis, the reasons should be documented.
- 6.1 *The district agrees with this recommendation and has already implemented procedures that will lock computers with access to sensitive information after a period of inactivity.*
- 6.2 *The district agrees with this recommendation and is implementing a procedure where the Human Resources office will develop salary schedules which will then be reviewed for accuracy by the finance department.*
- 6.3 *The district agrees that it should ensure all significant purchases of goods and services are subject to a competitive procurement process and that if it is necessary to purchase goods or services from a sole source vendor or on an emergency basis, the reasons should be documented. At the same time, the district notes that the mulch and pool product purchases cited were during the course of the entire year, not one time purchases that exceeded policy. However, the district agrees that it is good practice to review such purchases and determine if a competitive quote or bid process is appropriate in the future. The district will initiate a proposal process for its legal services during the next fiscal year.*

## 7. Capital Assets and Fuel Usage

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

### 7.1 Capital asset procedures

The district does not always follow its policies and procedures for all capital assets. As a result, assets are more susceptible to theft or misuse. The district's insurance carrier valued district property, buildings, and contents at approximately \$25 million as of December 2016.

District officials have not properly maintained a detailed record of all property owned by the district, developed procedures to identify capital asset purchases throughout the year, or tagged or otherwise identified all property items as belonging to the district in accordance with district policy. The district only tags assets purchased with federal awards, vehicles, Chromebook computers, and iPads. The Director of Finance and the Chief Financial Officer indicated an annual physical inventory of district property is not performed by the school district. In addition, the maintenance department does not maintain an inventory listing of used or new surplus items and equipment which have been placed in storage for future use, sale, or disposal. Also, we noted some items purchased with district credit cards were shipped



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directly to teachers' and school administrators' homes increasing the possibility of misuse of district assets.

During visits to various schools we noted assets that were not tagged as district property or could not be located. For example, the district purchased 6 metal detectors in December 2008 at a total cost of approximately \$44,000 but did not properly tag and account for these items. We located 2 metal detectors in storage at both Central High School and West High School that were not tagged or identified as district property. District personnel indicated the other 2 metal detectors had been transferred to surplus and were later disposed of according to warehouse personnel; however, there are no records to support the disposition. The Director of Security and Principal at East High School did not know any details regarding when the 2 metal detectors were moved to surplus or the timing and method of disposal. District personnel stated 2 metal detectors were supposed to be installed at each of the high schools to enhance security; however, they were not installed or used.

In addition, a Cricut Explore Air Machine (electronic cutting machine) and accessories costing \$403 purchased for Northwest Middle School could not be located in the building. The school principal stated she had the machine at her residence due to the library floors being cleaned and waxed, but no approval to remove the item was produced. This piece of equipment is a tabletop device. The device has since been returned to the school.

Adequate capital asset records are necessary to better secure district property and provide a basis for determining proper insurance coverage. Board inventory management policy DID states, "The superintendent or designee will create procedures to prevent excessive, duplicative or unnecessary purchases and to properly track, maintain and dispose of property as required by law and in accordance with sound business practices. . . . The superintendent or designee shall maintain one master inventory list of district equipment. Equipment will be added to the master inventory list at the time of purchase. . . . In addition, the superintendent or designee will ensure that a physical inventory of all equipment is completed and the results reconciled with equipment documentation at least every two years. . . . District equipment and supplies will remain on district property and will not be removed unless it is for a district purpose and the removal has been authorized by the superintendent or designee or the employee's supervisor."

## 7.2 Fuel usage

The district does not reconcile fuel logs to fuel billings. The district maintains 2 locked bulk fuel tanks for its 135 buses and 101 vehicles and pieces of equipment. Fuel tanks can be accessed by warehouse personnel, grounds crew, security guards, maintenance personnel, bus drivers, and most coaches. The district uses fuel logs showing the date, amount of fuel pumped, mileage, and the bus or vehicle being fueled. However, no comparison is performed between total gallons pumped, gallons purchased, and gallons on hand. In addition, the fuel log is not always completed by all employees obtaining fuel.



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As a result there is less assurance fuel usage is accounted for properly, fuel invoices are correct, and misuse will be detected promptly. The district purchased fuel costing approximately \$461,000 during the 2016-2017 school year and \$550,000 during the 2015-2016 school year.

Procedures for reviewing fuel used and reconciling use to fuel purchases are necessary to ensure the reasonableness and propriety of fuel use and disbursements. The failure to account for fuel use could result in theft and misuse going undetected.

## Recommendations

The Board of Education:

- 7.1 Ensure complete and detailed capital asset records are maintained, assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records. In addition, the Board should ensure all district property is shipped directly to district locations and maintained on site.
- 7.2 Ensure a documented periodic reconciliation of fuel purchased to fuel used is performed, with any significant differences investigated, and ensure fuel logs are completed.

## Auditee's Response

- 7.1 *The district agrees with the recommendation. The district will review and update policies and procedures to ensure that complete and detailed asset records are maintained, that appropriate assets are properly tagged for identification, and that annual physical inventories are performed and compared to detailed records. This will include a review of Policy DID to ensure that it is being followed by all district staff and that staff are trained in the implementation of this policy. The procedures will also be reviewed, updated, and communicated to ensure that district property is shipped directly to the district and maintained on site and that any potential exceptions are approved by a supervising administrator and documented. The district is already developing procedures to better track surplus items, including the use of digital photos for documentation.*
- 7.2 *The district already maintains fuel logs, but will review and update procedures to ensure that fuel logs are completed for all fuel use, that there is a documented periodic reconciliation of fuel purchased to fuel used, and that any significant differences are investigated by an administrator.*

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## 8. Chromebook Laptop Computers

The district did not perform a comprehensive cost study for the 2015 Dell Chromebook computer project and the purchase was not properly bid. Instead, the district's IT department presented the Board a cost comparison of its original plan which included the repair costs and continued use of existing 9 year old laptops and the lease purchase of the Chromebook computers. In



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addition, a significant number of Chromebook computers are not in use as intended.

In 2015 the district decided to enhance the education of students by providing new Chromebook computers. The district's goal was to achieve a 1:1 ratio of Chromebook computers to middle and high school students and have elementary schools use computers set up in classrooms.

The district entered into a 4-year lease purchase for 10,000 Chromebook computers on December 14, 2015, at a total cost of approximately \$3,070,000 or \$307 each. A second 4-year lease purchase for 6,000 additional Chromebook computers costing approximately \$1,680,000, or \$280 each, was entered into on July 29, 2016. The district did not perform a comprehensive cost study or solicit bids for the purchase of the Chromebook computers prior to the Board approving the lease purchases.

A significant number of Chromebook computers are not used as intended. Chromebook computers are assigned to each student at all high schools and middle schools for use both at home and school. Students can opt out of using Chromebook computers assigned to them. A review of all high and middle schools determined approximately 1,150 students (900 at Central High School) opted out of receiving a Chromebook computer. As a result, the district has spent approximately \$340,000 (using average cost of 2 separate lease purchases or \$294) for Chromebook computers that are not in use as intended. School officials indicated some of the extra Chromebook computers assigned to a classroom rather than a student can be checked out or are kept for testing or replacements. District administrators were not able to provide specific reasons why students opted out.

Good planning, including proper bidding, and implementation followed up with continuous monitoring and reviews of district programs provide assurance district monies are spent efficiently and short- and long-term goals are accomplished.

## Recommendation

The Board of Education should continually review the use of Chromebook computers and future technology purchases to ensure established goals are met and purchases are properly bid and meet the needs of the district.

## Auditee's Response

*The district agrees with the recommendation. The district will continually review the use of all technology purchases to ensure goals are met and that purchases meet the needs of the district, with the understanding that goals and needs can evolve with the technology program and its implementation. Also, while the implementation process for Chromebooks may have differed from the original plan, the Chromebooks are being used for their intended purpose, which is student learning and instruction.*





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*Regarding the purchase, the district's Technology Committee reviewed possible choices of cloud based offerings and decided on Chromebooks due to their ease of use, cost, and flexibility with Google applications for education. Several devices were reviewed, including Dell, HP, Lenovo, Asus, Google, and Toshiba. The lack of ability to lay the screen flat and avoid hinge breakage eliminated HP, Asus, and Google's own device at the time. The quotes received per device from Lenovo and Toshiba were more expensive than Dell Chromebooks and district technology staff were already certified on Dell hardware.*

## Auditor's Comment

The district did not follow its bid policy for the purchase of the Chromebook computers. Also, the district provided no supporting documentation for the quotes discussed in its response.

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## 9. Vehicle Allowances

The district has not documented the basis for vehicle allowances, the allowance amounts, and the Associate Superintendent's mileage reimbursement.

The Superintendent and Associate Superintendent vehicle allowances are intended to compensate them for driving personal cars within the district to conduct district business. The district pays the Superintendent a \$650 monthly vehicle allowance and the Associate Superintendent a \$600 monthly vehicle allowance. Using the district's current mileage reimbursement rate of 54 cents per mile, the Superintendent would have to drive 1,204 miles and the Associate Superintendent 1,111 miles within the school district monthly (approximately 40 and 37 miles daily, respectively) to justify earning these allowances.

The Associate Superintendent's contract allows, and the district reimburses, the Associate Superintendent for mileage incurred within the district in addition to the vehicle allowance. The district paid the Associate Superintendent approximately \$250 for in-district mileage reimbursements in addition to her vehicle allowance for the school year ending June 30, 2017. This amount is also significantly lower than the vehicle allowance and indicates the larger allowance may not be necessary.

While the district reported vehicle allowances paid as taxable income, the district should periodically review the reasonableness of the vehicle allowances and mileage reimbursements and revise the Associate Superintendent's contract as needed. Vehicle allowances should be based on a reasonable estimate of miles driven for in-district business purposes, and if necessary, the district should adjust the benefits to reasonably reflect the actual expenses incurred by the employees on behalf of the district.

## Recommendation

The Board of Education review vehicle allowances and set amounts to reasonably reflect the actual expenses incurred by employees. The Board



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should also consider whether it is reasonable and necessary to reimburse the Associate Superintendent for mileage within the district and provide a vehicle allowance, and consider necessary contract revisions.

## Auditee's Response

*While the district understands the recommendation, vehicle allowances are common in superintendent contracts and are documented through the contracts. This has historically been a negotiated contractual component in at least the last five Hazelwood superintendent contracts and allows the district to remain competitive. In addition, a survey of sixteen area districts in the St. Louis region indicated that thirteen of the sixteen include this component. Regarding the Associate Superintendent, since the person in this position is retiring, this component will be ending this fiscal year.*

## 10. Internal Audit Function

The district lacks an internal audit function that could have helped discover and/or resolve the weaknesses addressed in this report and noted by the district's financial auditors.

During fiscal year 2017, the district had total revenues and expenditures of approximately \$216.7 million and \$214.1 million, respectively, and numerous cash collection points and compliance and policy requirements; however, the district does not have an internal audit function or similar alternative arrangements for audits of various processes. If utilized properly, the internal audit function can assist management in performing its duties more efficiently and effectively, and the savings could potentially exceed the cost. In addition, an internal audit function can enhance the district's annual external audit by providing valuable information to those auditors and ensuring the district has strong internal controls and accounting procedures in place. An effective internal audit function could have helped in discovering and/or resolving many of the accounting and procedural control weaknesses, and policy and compliance issues addressed in this report.

## Recommendation

The Board of Education consider appointing an internal auditor to conduct audits of district operations and activities.

## Auditee's Response

*The district agrees with the recommendation that an additional person reviewing district financial operations and activities would be of benefit. However, the district believes that it is the responsibility of management and administration to provide an internal audit function and resolve any accounting and procedural control weaknesses as well as policy and compliance issues. Therefore, the district plans to restructure the finance department and specifically assign duties to an employee who is involved in the daily review of operations and activities, including accounting guidelines, procedures and safeguards to reduce the risk of loss or theft, cash receipts, deposits, record retention/support, positions responsible at each site, segregation of duties and security of funds, internal review/reconciliation and oversight process, and required training for all staff responsible for cash*



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*handling prior to assuming duties. The staff member assigned will develop guidelines for training new staff as well as annual training and updates for all staff. The assigned staff member will also identify processes and procedures that require review and updates, periodically visit buildings to ensure that procedures are being implemented, and be available for questions and retraining as necessary.*

## 11. Board Oversight of District Resources

The Board did not always ensure the efficient use of district resources while the district faced a reduced fund balance. As noted throughout the report, the district does not adequately safeguard district assets, has made numerous potentially unnecessary disbursements, did not properly plan for a substantial technology purchase, and has not provided for an internal audit function or other arrangements to oversee district assets.

The following table presents actual financial information for fiscal years 2011 through 2017 and budgeted financial information for fiscal year 2018 for the General Fund and Teachers' Fund combined.

	Fiscal Year Ended June 30,							
	2018 Projected	2017 Actual	2016 Actual	2015 Actual	2014 Actual	2013 Actual	2012 Actual	2011 Actual
Beginning Fund Balance	\$ 40,439,462	38,511,047	51,953,279	61,406,604	69,587,165	69,007,516	60,242,006	46,321,373
Revenues	191,703,497	191,362,885	185,882,890	188,623,221	184,639,756	187,801,167	197,321,315	201,223,484
Less: Expenditures	191,698,275	189,434,470	199,325,122	198,076,546	192,820,317	187,221,518	188,555,805	187,302,851
Ending Fund Balance	\$ 40,444,684	40,439,462	38,511,047	51,953,279	61,406,604	69,587,165	69,007,516	60,242,006
Net Fund Balance								
Increase/(Decrease)	\$ 5,222	1,928,415	(13,442,232)	(9,453,325)	(8,180,561)	579,649	8,765,510	13,920,633
Ending Balance as Percentage of Expenditures	21.10	21.35	19.32	26.23	31.85	37.17	36.60	32.16

The district budgeted for and incurred 3 years of operating deficits when expenditures significantly exceeded revenues for fiscal years 2014, 2015, and 2016. During these years the Board purchased Chromebooks without a comprehensive cost study and made other purchases that may not be reasonable (see MAR finding numbers 5 and 8). For fiscal year 2017, the Board decreased operating expenditures through administrative and teaching staff cuts and revenues slightly increased, resulting in the first operating surplus in 3 years. However, the operating fund balance at the end of fiscal year 2017 was approximately 21 percent of General and Teachers' Fund expenditures for that year, and is projected to remain at this same level by the end of fiscal year 2018, which is only 6 percent above the Board's preferred minimum. As previously noted, the Board also did not safeguard all assets during this time (see MAR finding numbers 1, 2, and 7).



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The 2017-2018 budget also projected only a minimal increase in the combined operating fund balance of approximately \$5,000 leaving a small margin for error if revenue projections are not met. The district's budget message also notes the 2017-2018 school year would be another difficult financial year for the district. The budget also included further reductions in overall personnel costs by eliminating teacher, custodian, and administration positions.

It is essential the Board continuously oversee the use of district resources and safeguarding of assets to ensure the efficient use of district resources and adequate operating fund balances. This is especially important when the district faces a potentially difficult financial future.

## Recommendation

The Board should continue to eliminate unnecessary spending and evaluate controls and management practices to ensure efficient use of district resources.

## Auditee's Response

*The district agrees that it should continue to review spending and evaluate controls and management practices to ensure efficient use of district resources. The review of spending already occurs through regular reports to the Board and through an inclusive annual budget process that invites community and staff members to provide input. This process has resulted in a balanced budget in the last two fiscal years despite a more than 20 percent loss in property values and the resulting loss of millions of dollars of revenue that previously caused the district to incur operating deficits. Through the regular annual independent audit, as well as through the items outlined in answers throughout this report, the district intends to continue to improve upon the evaluation of controls and practices to ensure more efficient use of taxpayer resources.*

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# Hazelwood School District

## Organization and Statistical Information

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The Hazelwood School District is located in north St. Louis County.

The district operates 3 high schools (grades 9-12), 6 middle schools (grades 6-8), 14 elementary schools (grades K-5), 6 elementary schools (grades PK-5), and 3 early childhood centers. Enrollment was 17,668 for the 2016-2017 school year. The district employed 2,174 full- and part-time employees, as well as 328 substitutes (teachers, aides, custodians, food service employees, nurses, bus drivers) at June 30, 2017.

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

### Board of Education

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, 2017, were

Desiree D. Whitlock, President  
Dr. Richard A. Roberts, Vice-President  
Margo McNeil, Secretary  
Dr. Brenda C. Youngblood, Treasurer  
Mark J. Behlmann, Member  
Cheryl D. Latham, Member  
Karlton Thornton, Member

### Superintendent

The district's superintendent at June 30, 2017, was Dr. Nettie Collin-Hart. Her total compensation for the 2016-2017 school year was \$252,800 including an annual salary of \$235,000, a \$10,000 retirement account, and a \$7,800 car allowance. The superintendent's compensation is established by the Board of Education.

### Financial Activity

A summary of the district's financial activity for the year ended June 30, 2017, follows:

Hazelwood School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2017

	General (Incidental) Fund	Special Revenue (Teachers') Fund	Debt Service Fund	Capital Projects Fund	2013 Bond Issue Fund	Totals
<b>REVENUES</b>						
Local	\$ 91,946,278	17,461,311	19,467,341	3,769,442	14	132,644,386
County	2,384,751	179,903	470,881	0	0	3,035,535
State	16,797,305	48,015,185	0	366,233	0	65,178,723
Federal	9,368,665	3,835,198	1,173,368	53,954	0	14,431,185
Other	1,374,289	0	0	0	0	1,374,289
<b>TOTAL REVENUES</b>	<b>121,871,288</b>	<b>69,491,597</b>	<b>21,111,590</b>	<b>4,189,629</b>	<b>14</b>	<b>216,664,118</b>
<b>EXPENDITURES</b>						
Instruction	9,669,199	99,800,673	0	0	0	109,469,872
Attendance	311,497	0	0	0	0	311,497
Guidance	1,457,128	5,100,675	0	0	0	6,557,803
Health services	2,585,694	0	0	0	0	2,585,694
Improvement of instruction	2,397,714	3,691,664	0	0	0	6,089,378
Professional development	501,053	72,353	0	0	0	573,406
Media services	456,390	2,965,563	0	0	0	3,421,953
Board of Education services	1,366,843	0	0	0	0	1,366,843
Executive administration	630,978	1,578,064	0	0	0	2,209,042
Building level administration	3,556,549	7,952,787	0	0	0	11,509,336
Business Fiscal and Internal Services	1,812,657	0	0	0	0	1,812,657
Operation of plant	19,305,235	0	0	0	0	19,305,235
Security services	2,970,729	313	0	0	0	2,971,042
Pupil transportation	7,499,053	0	0	0	0	7,499,053
Food service	6,788,335	0	0	0	0	6,788,335
Central Office Support Service	4,353,268	673,968	0	0	0	5,027,236
Adult continuing education	1,318	0	0	0	0	1,318
Community services	790,487	1,144,283	0	0	0	1,934,770
Capital outlay	0	0	0	2,816,789	147	2,816,936
Debt Service:						0
Principal retirements	0	0	8,930,000	1,430,000	0	10,360,000
Interest	0	0	11,140,213	124,263	0	11,264,476
Other charges	0	0	249,315	4,096	0	253,411
<b>TOTAL EXPENDITURES</b>	<b>66,454,127</b>	<b>122,980,343</b>	<b>20,319,528</b>	<b>4,375,148</b>	<b>147</b>	<b>214,129,293</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>55,417,161</b>	<b>(53,488,746)</b>	<b>792,062</b>	<b>(185,519)</b>	<b>(133)</b>	<b>2,534,825</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers (to) from other funds	(53,488,746)	53,488,746	0	0	0	0
Refunding bonds	0	0	29,638,583	0	0	29,638,583
Premium on sale of bonds	0	0	2,597,847	0	0	2,597,847
Payments to refunded bond escrow agent	0	0	(31,988,624)	0	0	(31,988,624)
Sale of other property	0	0	0	5,265	0	5,265
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(53,488,746)</b>	<b>53,488,746</b>	<b>247,806</b>	<b>5,265</b>	<b>0</b>	<b>253,071</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,928,415</b>	<b>0</b>	<b>1,039,868</b>	<b>(180,254)</b>	<b>(133)</b>	<b>2,787,896</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>38,511,047</b>	<b>0</b>	<b>7,865,908</b>	<b>6,122,285</b>	<b>133</b>	<b>52,499,373</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 40,439,462</b>	<b>0</b>	<b>8,905,776</b>	<b>5,942,031</b>	<b>0</b>	<b>55,287,269</b>

Source: District's independent (CPA) audit report for the year ended June 30, 2017. Information presented on a modified cash basis.