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Missouri State Auditor

Drexel R-IV School District



May 2008

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Office of
Missouri State Auditor
Susan Montee, CPA

May 2008

The following findings were included in our audit report on the Drexel R-IV School District.

The Drexel R-IV School District paid approximately \$192,756 in severance wages and benefits to the former Superintendent, who resigned in February 2007. The Board voted unanimously in January 2007 to buy the remainder of the former Superintendent's contract, and voted six to one in February 2007 to approve a negotiated separation agreement. Included in the \$192,756 was approximately \$12,102 in retirement and insurance benefits that did not appear to be specified in the termination clause of the employment contract for the former Superintendent. In addition to the severance payments, the district paid approximately \$10,900 to an interim superintendent for the remainder of the school year, and \$2,000 to a law firm to prepare the separation agreement. Since the former Superintendent's employment contract provided an option to terminate employment without severance pay, and her written resignation letter indicated she was resigning for personal reasons, it is not clear whether the severance payments were justified.

The district accepted a settlement totaling approximately \$27,000 in a residency lawsuit, and at the same time may have received state funding for the students named in the lawsuit. Since the settlement appears to be in lieu of tuition, it may not be appropriate for the district to retain both the settlement and the state funds. Additionally, the district incurred approximately \$90,000 in costs for legal and other professional services related to this case.

The school district did not solicit bids for transportation services, and does not have an adequate system to control and monitor fuel purchased for buses. The school district has contracted with the same transportation company since 1985, and during the two years ended June 30, 2007, spent approximately \$334,000 on contracted transportation costs including approximately \$299,000 to the transportation company and approximately \$35,000 for fuel. Furthermore, the district's enrollment and the number of students riding the bus have decreased significantly since 2005, and the district should evaluate various options to provide more efficient transportation.

Bids were not always solicited by the district nor was bid documentation always retained for some major purchases, such as playground equipment and classroom renovations. Additionally, during the two years ended June 30, 2007 the district paid approximately \$74,000 to a law firm without a written contract, and the firm's hourly billing rates increased by as much as 19 percent during this time period. Further, proposals were not solicited for legal and auditing services, payments for contract labor were not tracked and reported, and procedures for approving expenses need to be improved.

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YELLOW SHEET

Financial reports provided to the Board do not provide the detail necessary to properly monitor district finances. Additionally, the district's budgets and published financial statements were not in compliance with state law.

The Board approved paying \$18,800 to 34 district employees for curriculum development that they believe resulted in improved MAP (Missouri Assessment Program) test scores from the previous school year. These payments were not included in employees' contracts, taxes were not withheld and amounts were not reported on their W-2 forms. These payments appear to represent additional compensation for services previously rendered and, as such, are an apparent violation of the Missouri Constitution and are contrary to an Attorney General's opinion.

The Board's procedures for conducting and documenting board meetings need improvement. Closed meeting minutes did not document how some topics discussed in closed session complied with state law. Additionally, meeting minutes did not always include discussion topics or votes, documentation of roll call voting to close meetings, or evidence of how some decisions made during closed meetings were subsequently made public. Further e-mails sent by the former Superintendent to all board members, including at least one e-mail polling board members for a decision on an issue, were not copied to the custodian of records to be retained with the official board minutes.

Also included in the audit report are recommendations related to accounting controls, bank depository agreement and maximizing revenues, and capital assets.

All reports are available on our Web site: www.auditor.mo.gov

DREXEL R-IV SCHOOL DISTRICT

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Board of Education
Drexel R-IV School District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Drexel R-IV School District. The school board engaged Daniel, Schell, Wolfe and Associates, P.C., Certified Public Accountants (CPAs), to audit the school district's financial statements for the year ended June 30, 2007. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the school district has adequate internal controls over significant management and financial functions.
3. Determine if the school district has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the school 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. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, 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. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when

compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Drexel R-IV School District.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Donna Christian, CPA, CGFM
In-Charge Auditor:	Troy Royer
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

DREXEL R-IV SCHOOL DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Superintendent's Separation Agreement

Approximately \$192,756 in severance wages and benefits was paid to the former Superintendent who resigned in February 2007. The following amounts were paid:

Wages and Benefits	Amount
Wages for March - June 2007	\$ 25,685
Wages for July - June 2008	75,351
Wages for July - June 2009	77,611
Unused vacation and sick leave	2,007
Insurance March - September 2007	2,772
Retirement Benefits	9,330
Total	\$192,756

The Board voted unanimously in January 2007 to buy the remainder of the former Superintendent's contract, and voted six to one in February 2007 to approve a negotiated separation agreement. The separation agreement ended the employment of the former Superintendent and provided for the severance wages and benefits noted above to be paid upon her resignation. In addition to the severance payments, the district paid approximately \$2,000 to a law firm to prepare the separation agreement.

The former Superintendent's three-year employment contract provided the district the ability to discharge its obligation under the employment contract by paying the former Superintendent all the salary to which she would be entitled under the remainder of the contract term; however, the contract did not specify that employment benefits, such as insurance and retirement, would be paid upon termination. Approximately, \$12,102 of the above costs are for retirement and insurance benefits.

The separation agreement provided for the former Superintendent to be placed on professional leave from March 20, 2007 through June 30, 2007. Given this term in the agreement, it was necessary for the district to appoint an interim superintendent and incur approximately \$10,900 in additional salary and benefit costs.

Additionally, the former Superintendent's employment contract also provided options to terminate employment without severance pay. Since the former Superintendent submitted a written resignation letter indicating she was resigning for personal reasons, it is not clear whether the severance payments were justified.

WE RECOMMEND the School Board refrain from paying excessive severance payments in the future. If any severance payments are provided, they should be limited and consistent with those payments agreed to prior to resignation/termination.

AUDITEE'S RESPONSE

The School Board provided the following response:

Based on advice and information from previous legal representation, the Board of Education membership of that time frame completed actions as stated in the audit findings.

The current Board of Education has established clearly defined separation of responsibility for current legal representatives with specific delineation should there be diverse interests between the Board and the Superintendent or other school employee per Board policy BCG (Adopted 3/18/1996, Revised 12/17/2001) and legal statute 162.411, RSMo.

Action steps have been discussed and put in place to accommodate sudden change in administrative leadership to allow for a reasoned, structured transfer of responsibility should that need occur. Contractual obligations have been reviewed and established to ensure that severance packages and/or separation agreements are negotiated by separate representation for each party with the Board of Education attorneys representing only the Board of Education's interests.

2.	Lawsuit Settlement
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The District accepted a settlement totaling approximately \$27,000 in a residency lawsuit, and may have also received state funding for the students that the lawsuit alleged lived outside district boundaries between 1999 through 2004.

In 2005 the district filed a lawsuit against the parent of two students alleging they did not reside within district boundaries. The lawsuit was settled in January 2007, with the district agreeing to receive four semiannual payments of \$6,000 each plus one interest payment of approximately \$3,000 from the parent. Between 1999 and 2004, the district may have also claimed the students named in the lawsuit as resident students and received funding from the DESE. District personnel indicate that state claim forms filed by the school during this period did not exclude the students whose residency was questioned by the lawsuit. Although the settlement agreement did not specify the settlement amount was in lieu of back tuition, it appears this was the basis for the lawsuit filed by the district. As a result, it is questionable whether or not the \$27,000 settlement should go to the state as reimbursement.

Additionally, the district incurred approximately \$90,000 in costs for legal and other professional services related to this case since it began in 2005. The district did not maintain a written contract for these services and hourly billing rates for legal services were increased during the duration of the suit. (See MAR 4B)

The district should contact the DESE regarding the settlement agreement and determine the proper disposition for these funds.

WE RECOMMEND the School Board contact the DESE concerning the proper disposition of the funds received as settlement for the residency lawsuit.

AUDITEE'S RESPONSE

The School Board provided the following response:

The Drexel R-IV School District did not exclude any student(s) from the average daily attendance registry who were listed as living in District during the time frame noted in the audit findings.

The Drexel R-IV School has been in contact with the Missouri Department of Elementary and Secondary Education (DESE) regarding the residence issues and subsequent legal issues. All information requested by DESE has been provided. Four conversations and/or meetings have been held to analyze both the past occurrences and the current situation regarding state funding for the school district. The situation is under review with final decision regarding possible state funding adjustments to be provided to the District no later than the end of the 2008-2009 budget year.

The current Board of Education has established a contractual relationship with legal representatives from the Kansas City area. Per Board Policy BCG, the legal agreement specifies recommended items noted in the audit findings.

3. District Transportation and Fuel Procedures

Bids have not been solicited for transportation costs, and procedures have not been developed to adequately monitor fuel usage or terms of the transportation contract. Additionally, the district has experienced a significant decline in the number of students riding the bus to and from school, and the Board needs to evaluate various possibilities of providing more efficient transportation.

- A. The school district has contracted with the same transportation company since 1985 to provide bus transportation for students. During the two years ended June 30, 2007, the district spent approximately \$334,000 on contracted transportation costs including approximately \$299,000 to the transportation company and approximately \$35,000 paid for fuel on the transportation company's behalf. The contractor served four routes per day plus transportation to a vocational facility, and provided additional transportation for other district activities such as sporting events and field trips. The school district did not solicit bids for these transportation services.

Additionally, the district does not have an adequate system to control and monitor fuel purchased for the buses. Fuel is paid for by the district and stored in a fuel tank located at a local oil company. The district does not require the transportation company to periodically provide fuel usage logs documenting the amount of fuel used. Without periodically obtaining detailed fuel logs from the contractor and reconciling them to the gallons of fuel purchased, the district has no means to ensure fuel costs are proper and reasonable. Also, the district does not seek bids for fuel.

The district also does not adequately monitor all terms of the transportation contract for compliance. For example, the contract requires the transportation company to ensure all bus drivers meet statutory requirements; however, the district had not requested documentation of bus driver training to ensure all bus drivers were adequately trained as required by law. We requested and received this information directly from the transportation company.

Competitive bidding provides a framework for economical management of the school district's resources and helps assure the district that it receives fair value by contracting with the lowest and best bidder. Additionally, to ensure fuel costs paid by the district are proper and reasonable, fuel usage logs should be obtained from the transportation company and reconciled to the gallons of fuel purchased. Further, the district should request information from the transportation company to document compliance with all terms of the contract.

- B. The district should evaluate various options to provide more efficient transportation. The district contracts for four daily bus routes but the number of students riding the bus has decreased significantly during the last three years.

Since 2005 the district's student count has decreased by approximately 16 percent, and the number of students riding the bus has decreased by approximately 28 percent. According to the bus rider counts reported to the Department of Elementary and Secondary Education (DESE) an average of approximately 29 students were riding each of the four buses. The buses owned by the contractor and used for the school district's bus routes each seat approximately 65 passengers.

Considering the decrease in students riding the bus and the large capacity of the buses, the district should evaluate the possibility of consolidating the routes (contracting for three routes instead of four routes), or contracting for smaller, more efficient buses. In addition to cost savings, other factors such as the length of the bus routes and the student pick up and drop off times should all be considered when making this decision. As noted above, the district spent approximately \$334,000 on transportation costs during the two years ended June 30, 2007. Of this total, approximately 80 percent or \$267,200, was related to daily bus routes and the remainder was for transportation related to school activities.

WE RECOMMEND the School Board:

- A. Solicit competitive bids for the transportation contract and fuel, require detailed fuel logs be submitted by the transportation company, and periodically reconcile the amount of fuel pumped to the amount of fuel purchased. Additionally, procedures should be developed to adequately monitor all contract terms.
- B. Evaluate various options of providing more efficient transportation to better accommodate the significant decrease in bus ridership.

AUDITEE'S RESPONSE

The School Board provided the following responses:

Review of available records support the assertion that transportation service contracts have not been submitted to bid for several years. The current contractual obligation with Gunnels Transportation Company is in effect through the 2008-2009 academic year. From all records and evidence available for review, transportation services have been of good quality.

Discussion with administration and Board of Education beginning in early Fall 2007 supports bid procedures being followed for all major services for the Drexel R-IV District per state requirements, Board policy, and Missouri School Board Association recommendation. The bid process for transportation services will be conducted prior to July 1, 2008. This service provision per contract obligations noted above will not take effect until academic year 2009-2010.

From available record review, fuel bids have not been requested for the past several years. Per direction of the Board of Education, senior administration will develop and proffer requests for proposal in conjunction with other major services and provider contracts as noted previously. The specific area of fuel charges may be mitigated by the transportation company selection and procedures. Should the current situation continue in which the District provides fuel for the transportation company, fuel logs, mileage logs, monthly controls and regular reconciliation procedures will be collaboratively developed to ensure effective and efficient fuel usage. All contract obligations will be reviewed, monitored, and records maintained in the District Administrative offices.

Documented review and direct observation throughout the year indicate consensus with audit findings. Beginning August, 2007 student ridership of current bus routes has been monitored and reviewed for potential recommendation of reduction in routes. This data will be a part of the request for proposal being developed for submission prior to July 1, 2008.

4.

Expenditures

Bids were not always solicited by the district nor was bid documentation always retained for some major purchases. Additionally, the district would benefit from a more

comprehensive bid policy. During the two years ended June 30, 2007, the district paid approximately \$74,000 to a law firm without a written contract, and the firm's hourly billing rates increased by as much as 19 percent during this time period. Further, proposals were not solicited for legal and auditing services, payments for contract labor were not tracked and reported, and procedures for approving expenses need improved.

- A. The district did not solicit bids for some major purchases. In addition, neither the board meeting minutes nor the bid files contained adequate documentation of the district's efforts to compare prices (i.e., phone contacts, inquiries) or reasons to support sole source purchase determinations. Examples of items purchased for which bid documentation could not be located or was not sufficient include:

<u>Construction Cost or Items Purchased</u>	<u>Cost</u>
Playground equipment and soft tile	\$ 69,486
Fuel for school buses (2007 & 2006)	35,442
Renovation of home economics room	23,420
New computers	17,784
Resurfacing playground	12,650
Finish work on new classrooms	10,050
Playground drainage work	9,293

District personnel indicated that bids were solicited for some of the above purchases; however, documentation could not be located. For example, in one instance board meeting minutes indicated a bid was selected, but the minutes did not document the other bids received and documentation of the bids could not be located in the district's files.

The district's current bid policy requires all construction projects over \$15,000 to be bid as required by Section 177.086, RSMo. However, the policy does not require bidding for non-construction items and does not indicate the types of bidding procedures that can be used to ensure the district receives the best economical value on its purchases for amounts less than \$15,000. A more comprehensive policy would make the district's bidding procedures more effective.

Routine use of a competitive procurement process (advertisement for bids, phone solicitations, written requests for proposals, etc.) for major purchases ensures the district has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in district business. Documentation of the various proposals received, and the district's selection process and criteria should be retained to demonstrate compliance with district policies and support decisions made.

B. The district did not have a written agreement with a law firm that was paid approximately \$74,000 during the two years ended June 30, 2007 and did not solicit proposals for legal and auditing services.

- The district did not have a contract with their law firm documenting the services to be provided or the rates to be charged. During the two years ended June 30, 2007 the district paid this firm \$74,042 which included \$8,434 for a private investigator and \$10,000 for an outside consultant, both hired by the law firm. There is no documentation of the work performed or of the Board's approval to hire the private investigator and the consultant. Additionally, the law firm increased hourly billing rates by as much as 19 percent in January 2007. Individual attorney billing rates ranged from \$120 to \$230 per hour.
- There is no documentation to indicate that proposals were solicited for professional services such as legal or auditing services. The district's auditor is contracted for a three year period and was paid a total of approximately \$12,400 for these services.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Written contracts should specify the services to be rendered and the manner and amount of compensation to be paid. In addition, Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. Although not required by law, the board should consider periodically soliciting proposals for legal and auditing services to ensure they are receiving the best services and rates.

C. The district does not file Forms 1099 with the Internal Revenue Service. During the year ended June 30, 2007, the district paid approximately \$21,000 to individuals for performing general maintenance, and providing various services at athletic events; however, the amounts paid to these individuals are not tracked and the district does not file Forms 1099 as required by the Internal Revenue Service.

Sections 6041 and 6051 of the Internal Revenue Code require payments of at least \$600 or more in one year to an individual for professional services or for services performed as a trade or business by non-employees (other than corporations) be reported to the federal government on Form 1099.

D. The check register provided monthly to the Board for their review and approval is not complete. The register includes checks prepared to pay current bills, but does not include checks for payroll expenses. As a result, payroll expenses are not approved by the Board, and the numerical sequence of check numbers shown on the check register provided to the Board cannot be accounted for from month to month.

While district policy provides for the Superintendent to review and authorize all invoices prior to payment, the former Superintendents' reviews were not always

documented. Additionally, expense reimbursement claims submitted by the former Superintendent were also signed as approved by her, and there is no indication that the Board reviewed these reimbursement claims.

To ensure all expenditures are properly authorized, a complete check register should be prepared and signed or initialed by the Board to denote their approval, and retained with the official minutes. Additionally, detailed invoices and other documentation should be made readily available for review by board members, and internal controls should be established to ensure purchases are approved or authorized by someone independent of the requester.

WE RECOMMEND the School Board:

- A. Solicit bids for major purchases and maintain documentation of the bidding process. Also, consider adopting a more comprehensive bid policy that addresses non-construction items and purchases less than \$15,000.
- B. Enter into written agreements for legal services detailing the duties to be performed and the costs associated with the service. Consideration should be given to periodically solicit and document proposals for legal and auditing services. In addition, adequate documentation should be obtained to support payment for services performed by outside consultants.
- C. Ensure IRS Forms 1099 are filed as required for prior years as well as in the future.
- D. Ensure a check register is reviewed and approved, and the approval is documented and retained with the official minutes. Additionally, detailed invoices and other documentation should be made readily available for review by board members, and internal controls should be established to ensure purchases are approved or authorized by someone independent of the requester.

AUDITEE'S RESPONSE

The School Board provided the following responses:

- A. *All documentation available in existing files (electronic, written, and formal) was provided to the state auditors regarding items listed below and/or other major purchases during previous school years. While several bid procedures and/or procurement processes appeared to have been in place, formal documentation and record maintenance were not available at the time of the state audit. For future procedures, actions are being developed to identify time, location, individual, procedure, and results of inquiry will be documented. Additionally, within the Requests for Bid/Request for Proposal information regarding selection criteria, selection process, and appropriate timelines will be noted. Areas where specific note should be made include the following.*

Playground resurfacing and playground drainage work. From personal recollection and/or printed materials, there appeared to have been an urgent need for some of this work to be completed on an immediate timeframe with little or no time for delay. The work needed was time sensitive to avoid severe problems with the installation of the playground and playground equipment. In the specific situation of the playground resurfacing and playground drainage work, emergency situations required immediate remedy. Additionally, both personal recollection and general print documents indicate the several hours of volunteer work were completed exclusive of the cost analysis provided.

Per current Board Policy DJC, the specific items noted in the audit findings should be conferred for bid and/or competitive pricing practice with appropriate documentation available in the bid file and/or in the respective subject file. For future action, effort will be made to at a minimum do competitive pricing with supporting documentation maintained by the District Custodian of Records.

- B. As noted previously in the Board of Education responses, the current practice of the Drexel R-IV School District is to review and abide by appropriate Board Policies. Per Board Policy BCG, the legal aspects of attorney representation are in place with written, contractual parameters clearly defined and followed. Further, the Board of Education's current law firm has reviewed existing Board Policy and designed a precise delineation of obligations, responsibilities, and representation hierarchy for the Board defining costs incurred, cost analyses, and representation (Board minutes: November 12, 2007; January 21, 2008; February 18, 2008.).*

Prior to audit findings and the audit report, the Board of Education began a purchase and procurement review to identify areas of potential concern and/or opportunity for improvement. Referencing Board Policy DJC, bid procedures will be in place by July 1, 2008 with Requests for Proposal of Bids and/or competitive pricing methods utilized for fiscal year 2008-2009. Formal procurement procedures are being developed and will be provided for Board review by July 1, 2008 and available for faculty/staff training in August 2008.

- C. The Drexel R-IV School District will make every possible effort to comply with all Internal Revenue Services requirements. Procedures regarding maintenance of records, personnel and fiscal, have been established and will be reviewed annually to ensure effective and efficient management of these data.*
- D. To address the recommendations noted in this report, beginning April 1, 2008, the Board of Education members have available to them upon request at any time the entire numerical sequence for the monthly check register. This will enable a review of all expenditures. Check registers with complete numeric listing are reviewed and initialed by Superintendent.*

Financial reports provided to the Board do not provide the detail necessary to properly monitor district finances, the district's budget is not in compliance with state law, budgets were not properly amended and monitored by the district, and financial statements are not published in accordance with state law.

- A. Monthly financial reports reviewed by the Board and filed with the board meeting minutes do not provide the detailed financial information necessary to properly monitor district finances. At each monthly board meeting the Board is provided a Treasurer's Report listing the cash balance of each fund at the end of the previous month, and a check register listing checks to be paid (as noted in MAR 4.D. the check register listing is not complete). The Board is not provided with monthly budget to actual comparison reports or detailed reports of monthly revenues and expenditures of each fund. Additionally, there is no indication that the Board has requested additional information to more closely monitor district finances.

To ensure district funds are being accounted for properly and to provide adequate financial information sufficient to make informed management decisions, the Board should ensure financial reports received monthly provide sufficiently detailed information.

- B. The district's budgeting procedures need improvement. For the year ended June 30, 2007 the district's budget reflected more than \$3.3 million in anticipated revenues and expenditures.
1. The district's budget for the year ended June 30, 2007 did not include actual receipts and disbursements for the two preceding years or a budget message as required by Chapter 67, RSMo. By preparing a complete budget document, the Board will present a complete financial plan to the district citizens, more effectively monitor and evaluate all district financial resources, and ensure compliance with statutory provisions.
 2. The school board amended their budget for the year ended June 30, 2007 so that budgeted amounts would agree to actual revenues and expenditures; however, the district did not amend the budget before expenditures were incurred. After approving the final expenditures for the year, an amendment was submitted and approved on June 18, 2007 for the budget to increase total revenues and expenditures by \$142,032 and \$213,042, respectively. In addition, during this same meeting the Board adopted the budget approved in September 2006 for the year ending June 30, 2007 as their estimated budget for the year ending June 30, 2008.

By amending the budget so that it would reflect no variances in the revenue and expenditure categories, the effectiveness of the budget as a management tool was decreased. Additionally, by adopting the prior year's budget for the next year the Board has not given adequate consideration and planning to the amounts budgeted.

Section 67.040 allows for budget increases after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080 provides that no expenditure of public monies shall be made unless it is authorized in the budget. To be of maximum benefit to the Board and the taxpayers, a complete and accurate budget is needed which reflects anticipated revenues and expenditures and the related variances between those estimates and the actual financial activity.

- C. Financial statements are not published in the manner required by state law. The district's published financial statements for the year ended June 30, 2007, presented only total receipts and disbursements for each fund and did not present receipts and disbursements by major classifications. Additionally, the published financial statement did not include required information from the school's audit report, and information as to where the audit report is available for inspection.

Section 165.121, RSMo, requires that a summary statement of the district's audit report be made and published in a newspaper within the county, and include a statement of fund balances and receipts and disbursements by major classifications, a summary statement of the scope of the audit, the auditor's opinion on the financial statements, and information where the audit report is available for inspection. In addition to complying with state law, published financial statements provide residents information about how district resources are being used and the resources available.

WE RECOMMEND the School Board:

- A. Ensure adequately detailed financial reports are received and reviewed monthly.
- B. Prepare a complete budget document that complies with state law, and discontinue amending the budget at the year end to agree budgeted amounts to actual revenues and expenditures. Further, when budget amendments are necessary, they should be made prior to incurring the actual expenditures.
- C. Ensure the annual published financial statements are prepared in compliance with state law.

AUDITEE'S RESPONSE

The School Board provided the following response:

District budget documents will be provided to the Board of Education on a monthly basis with Auditor's recommendations implemented. Annual published financial statements will be prepared to comply with requirements per state statute. Historical documentation has been located and classified according to fiscal year per Annual Secretary of the Board Report, available budgetary records, and state financial records.

6. Payroll and Employee Benefits

Additional compensation totaling \$18,800 paid to employees for curriculum development appear to be bonuses and in violation of the Missouri Constitution. Additionally, these payments as well as payments for other miscellaneous services were not reported to the IRS as taxable compensation and taxes were not withheld.

- A. According to the October 16, 2006 board meeting minutes, the Board approved paying \$18,800 to 34 district employees for curriculum development that they believe resulted in improved MAP (Missouri Assessment Program) test scores from the previous school year. The district paid \$2,000 to the former Superintendent, \$1,500 to the former High School Principal, \$1,000 to the former Elementary School Principal, \$500 each to 27 teachers, and \$200 each to 4 classroom aides. These payments were not included in employees' contracts. Additionally, these payments were not added to the employees' compensation, and as a result, taxes were not withheld and amounts were not reported on their W-2 forms. The district did not make curriculum development payments to employees during 2007.

The curriculum development payments appear to represent additional compensation for services previously rendered and, as such, are an apparent violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered." Additionally, written contracts, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Further, all compensation should be properly reported with taxes withheld.

- B. The district paid some employees for additional services which were also not included in the employees' compensation and therefore were not subject to payroll taxes and not reported on the employees' W-2 forms. For example, one employee was paid \$500 for supervising the science fair and another employee received \$300 for helping the janitor. These payments were not added to the employee's

compensation and therefore were not subject to payroll taxes and reported on their W-2 form.

WE RECOMMEND the School Board:

- A. Discontinue paying bonuses, ensure all employee compensation is subject to payroll taxes and properly reported, and ensure contracts properly specify the services to be rendered and the manner and amount of compensation to be paid.
- B. Ensure all compensation paid to employees is subject to payroll taxes and properly reported on W-2 forms.

AUDITEE'S RESPONSE

The School Board provided the following responses:

The compensation noted in the audit findings are documented in District financial documents. Employees were paid according to directive of past administration.

Financial consideration and/or compensation for professional services will be paid according to District policy and State statute. All compensation will be subject to IRS, payroll tax deduction and comply with appropriate verification. Contracts and/or memorandums of agreement will be in place for all services rendered from all employees with services, payment process, and compensation amount documented.

7.

Accounting Controls

Accounting duties are not adequately segregated, and significant improvements are needed in the handling of district receipts. In addition, the district's policy regarding the use of the petty cash checking account is not always followed, supporting documentation is not retained for some purchases, and there is no indication the board is reviewing the activity from this account. Approximately \$30,000 in transactions were processed through the district's petty cash checking account during the year ended June 30, 2007.

- A. The duties of receiving, recording, and depositing monies, and reconciling the bank accounts are not adequately segregated. The district bookkeeper primarily performs all of these duties. In addition, there are no documented supervisory reviews performed to ensure all monies receipted were deposited.

Internal controls would be improved by segregating the duties of receiving and depositing monies from recording and reconciling receipts. If proper segregation of duties cannot be achieved, at a minimum, periodic supervisory reviews of the records should be performed and documented.

B. The district's receipting procedures need significant improvement. Revenues such as gate receipts and concession proceeds from sports activities, student food service payments, and miscellaneous activity monies are received and recorded by the three district secretaries, the bookkeeper, and the cafeteria supervisor. Monies are transmitted to the bookkeeper to be posted to the accounting records and deposited. Total receipt amounts varied from \$2,000 to over \$14,000 per month during the school year.

- The numerical sequence of receipt slips is not accounted for, some receipt books used by the district do not contain official prenumbered receipts, voided receipts are not always defaced and retained, and prenumbered receipt books are not assigned to district users in numerical order. For example, receipt books used by district employees are not assigned in numerical order, and the numerical sequence of the receipt slips issued are not accounted for to ensure all funds collected are deposited.
- The method of payment (i.e., cash, check, or money order) is not recorded on the receipt slips and the composition of receipts is not reconciled to the composition of deposits. Additionally, some receipt slips were not completely filled out, as instances were noted where the amount and date was not indicated on some receipt slips. Also, more than one receipt slip was written for some monies received causing confusion when reconciling receipt slips to deposits.
- Receipts are not always deposited in a timely manner and receipts are not posted to the district's accounting system until a deposit is prepared. For example, lunch receipts collected between August 29, 2007 and September 21, 2007 totaling approximately \$4,644 were not deposited and posted to the accounting system until September 21, 2007. Also, miscellaneous receipts and program monies collected between September 6 and September 21, 2007 totaling approximately \$12,509 were not deposited and posted to the accounting system until September 21, 2007.

Without proper receipting procedures the district cannot ensure all monies received are deposited. To adequately account for all receipts, official prenumbered receipt slips should be issued in numerical order for all monies received, all voided receipt slips should be properly defaced and retained, the method of payment should be recorded on each receipt slip and the composition of receipts should be reconciled to the composition of bank deposits, all receipts should be posted to the district's accounting system when received, and deposits should be made on a timely basis.

C. The district maintains a petty cash checking account to pay for small expenditures that need to be paid before the next board meeting; however, the Board does not review the activity in this account. The account is also used to pay for some expenses that could be purchased through the district's normal accounts payable

process, and transfers are made from the district's operating account into the petty cash checking account without prior board approval. Additionally, supporting documentation was not maintained for some expenses paid from the petty cash checking account. While the district has a policy regarding the use of this petty cash checking account, the policy is not always followed and controls over these funds are not adequate.

For the year ending June 30, 2007, expenditures totaling almost \$31,000 were processed through the district's petty cash checking account.

- The petty cash checking account was regularly used to pay for contracted labor, and to reimburse employees for mileage. For example, during the year ended June 30, 2007, over \$21,000 was paid to individuals for various services at athletic events, and for general school maintenance. All mileage expenses should be reimbursed to employees based on the filing of detailed expense reimbursement reports and district labor expenses should be paid through the district's accounts payable system.
- Some student activity monies are deposited and expended through the petty cash checking account. For example, monies totaling over \$4,600 for a student lock-in, ACT workshop, and ski trip were processed through this account.
- Vendor invoices or other supporting documentation was not retained for numerous petty cash checking account purchases. For example, in September 2006, payments totaling \$620 were made to fifteen different individuals for labor; however, no supporting documentation or receipt for payment was maintained.
- While checks issued from the operating fund to replenish the petty cash checking account are approved by the board, direct transfers of funds from the district's operating account are not approved by the Board. Approximately \$12,000 was transferred from the district's operating fund into the petty cash checking account during the year ended June 30, 2007.
- The Board is not provided with information documenting the activity of the petty cash checking account, and there is no indication that the Board has requested information to verify the validity of the disbursements made from this account.

Section 165.021, RSMo, requires district monies be disbursed by the treasurer of the district upon orders of the school board. Controls should be in place to ensure transactions processed through the district's petty cash checking account comply with district policy and are reviewed by the Board. Additionally, all expenditures should be supported by paid receipts or vendor invoices to ensure the obligation

was actually incurred and the expenditures represent appropriate uses of public funds.

WE RECOMMEND the School Board:

- A. Adequately segregate accounting duties to the extent possible or ensure periodic supervisory reviews are performed and documented in the Superintendent's office.
- B. Require receipt slips to be issued in numerical sequence, and ensure the numerical sequence of receipt slips is accounted for properly. Additionally, the method of payment should be recorded on each receipt slip, and the composition of receipts should be reconciled to the composition of deposits. Further, all receipts should be deposited intact and in a timely manner, and posted to the district's accounting system when received.
- C. Ensure transactions processed through the district's petty cash checking account comply with district policy and review these transactions periodically. Further, adequate supporting documentation should be maintained for all district expenditures.

AUDITEE'S RESPONSE

The School Board provided the following responses:

- A. *We concur with the auditors' initial findings that accounting duties were not adequately segregated, i.e. collection, receipt, verification, and depositing of monies. These duties have been remedied and separation of duties is still being reviewed in order to best satisfy the needs of segregation of receipts while maximizing limited personnel.*
- B. *Receipt processes are under review. Additional processes will be implemented to ensure adequate numerical sequence of receipts, of deposits, and of account management. Receipts are deposited in a timely fashion with deposits being made daily on an as needed basis.*
- C. *The petty cash account is under review. Clearly defined parameters for the petty cash account usage, purpose, and maintenance will be considered with policies and practice revised for the 2008-2009 fiscal year.*

Remedies are underway to address concerns cited in the audit findings regarding petty cash accounts. Contracted labor, mileage reimbursements, etc. will not be paid on a consistent basis from the petty cash account. All reimbursement requests will follow stringent review and approval process with detailed expense reports. The petty cash account will be increased during specific time frames during the fiscal year per usage practice established to address the audit findings. Student account payments and/or receipts will not be co-mingled with the petty cash account.

Petty cash transfers will be made monthly per Board review and approval. A monthly accounting of the petty cash expenditures and/or receipts will be compiled and maintained with current financial records.

8.

Board Meetings and Minutes

The Board's procedures for conducting and documenting board meetings need improvement.

- Closed meeting minutes did not document how some topics discussed in closed session complied with state law. Examples include: on-line courses for students, request for e-mails, class sizes, adding the position of technology director, and initiating random drug testing for athletes. Additionally, instances were noted where the open meeting minutes did not accurately document the specific reason for closing the meeting. For example, in one instance bids for a security system were discussed during a closed meeting; however, the open meeting minutes did not list this as a specific reason for closing the meeting.
- Minutes did not always include documentation of roll call voting during open meetings to close the meeting, and it is not clear how some decisions made during closed meetings were subsequently made public. Closed meeting minutes reflect that the Board often made decisions during closed meetings and then adjourned the meeting during closed session without returning to open session.
- Minutes did not always include adequate detail as to what was being discussed or voted on. For example meeting minutes did not include documentation of bids received and the reason one bid was selected over another. Further, an open and closed agenda were included in the minute book for February 6, 2007, but no open or closed minutes were located for this date.
- During the board meeting immediately following the April 2007 election (when three new board members were elected) the old board met in closed session prior to swearing in the newly elected board members and reorganizing the board. Three of the seven board members objected to the outgoing board members meeting in closed session and making a decision. Section 162.301 requires the board to meet within 14 days after each annual election to issue the oath of office to the newly elected members. Board meeting minutes did not indicate why or under what authority the outgoing board members could meet in closed session and make a decision after the election.
- E-mails sent by the former Superintendent to all board members were not copied to the custodian of records to be retained with the official board minutes. Based upon copies of some e-mails we received from board members to review, numerous e-mails were sent to all board members during 2006, and at least one e-mail polled board members for a decision on an issue. Section 610.025 requires e-mails relating to public business

sent by a member of a public body to a majority of the members be copied to the custodian of records to be retained as a public record. Additionally, in December 2006, the Attorney General issued a letter to the Superintendent indicating that Section 610.010(5) prohibits straw polls and recommended corrective action be taken by the board at the next board meeting. Board meeting minutes acknowledged receipt of the letter from the Attorney General, but did not specifically document the need for corrective action on the issue.

The Sunshine Law, Chapter 610, RSMo, requires governmental bodies to prepare and maintain minutes of open and closed meetings and specifies details that must be recorded; requires the vote of each member on the question of closing a public meeting and the specific reason for closing that meeting be announced publicly at an open meeting and entered into the minutes; provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, and requires public disclosure of the final disposition of certain matters discussed during closed meetings.

Minutes serve as the only official permanent record of decisions made by the Board; therefore, it is necessary the minutes be prepared to clearly document all business conducted.

WE RECOMMEND the School Board ensure minutes clearly document all business conducted by the Board, and ensure all open and closed meetings of the Board comply with the Sunshine Law.

AUDITEE'S RESPONSE

The School Board provided the following response:

The current Board of Education is making extensive effort to ensure that the Drexel R-IV School District patrons have adequate information regarding board meetings, agendas for topics of discussion, and minutes of such meetings. Copies of the Sunshine Law statute (Chapter 610, RSMo) and pertinent sections of other requirements are provided to Board members (and patrons if requested) when working in closed session meetings. Minutes of meetings are provided to the local newspaper (The Drexel Star) after each session. Documentation of both open and closed meetings are maintained by the Custodian of Records with notification of action taken provided in said minutes.

9. Bank Depository Agreement and Maximizing Revenues

The district needs a written agreement with their depository bank, and needs to adequately monitor cash flow to increase interest revenue earned on deposits.

- A. The district does not have a written agreement with its depository bank, and has not solicited proposals for its checking and depository services. While the district

does have a pledge and custodial agreement to ensure adequate coverage over the district's funds, this agreement does not address specific banking arrangements such as bank fees, checking account services, and interest rates for invested funds.

A written depository agreement helps both the bank and the district understand and comply with the requirements of any banking arrangement. In addition, the district's bidding policy requires competitive bidding for bank depository services.

- B. Adequate steps are not taken to ensure the district maximizes the amount of interest earned on deposits. The district maintains a general checking (NOW) account and a money market account. The majority of deposits and all disbursements are processed through the NOW account. The money market account acts as a savings account for district monies, and transfers are made periodically from the money market account to the NOW account. Between June and October 2007, the average bank balance in the NOW account ranged from approximately \$90,000 to \$290,000 and only accrued an annual percentage yield rate of approximately 0.45 percent; however, the district's money market account accrued an annual percentage yield rate of approximately 4 percent.

To maximize interest revenues, the district should better monitor cash flow in order to maintain the majority of all district funds in the money market account which yields a higher rate of return. Monies should be transferred to the NOW account as needed to cover district expenses.

WE RECOMMEND the School Board:

- A. Enter into a written depository agreement with the district's depository bank, and periodically solicit bids for banking services.
- B. Adequately monitor the district's cash flow to ensure the maximum amount of district funds are maintained in the money market account yielding the highest rate of interest, and only transfer funds as needed to the district's NOW account to cover district expenses.

AUDITEE'S RESPONSE

The School Board provided the following responses:

- A. *For the past several years only one local depository was available to the District. That appears to be the premise for utilizing that depository and not conducting the formal bid procedures recommended by the current audit findings. Since there are now two (2) local options, as well as a state-wide financial depository option, there will be a bid process for depository services. As noted previously, a request for proposal is being developed for submission and implementation for the 2008-2009 fiscal year. The Board of Education will select the depository services needed and formalize a contractual document specifying all requirements noted in the audit findings.*

B. *The historical review of all financial records is being analyzed to ascertain patterns and trends of cash flow and possible methods to improve annual interest yield.*

10. Capital Assets

Procedures to account for district property need improvement. Some additions to district property were not accounted for on the district capital asset listing, inventory records do not always include the proper detail, and district assets are not properly numbered, tagged, or otherwise identified.

Annually, each teacher or other district employee prepares and submits an inventory listing of assets for their room to the Superintendent's office, and a capital asset report listing all other assets owned by the district is maintained by the Superintendent's office. These property records do not always include some necessary information, such as acquisition dates, costs, serial numbers, tag numbers, and date and method of disposal. For example, playground improvements costing approximately \$13,000 were not included on the district's capital asset report, and computers purchased in August 2006 costing approximately \$17,700 were added to the individual classroom listings but did not include the date purchased or the cost. Additionally, property items are not properly numbered, tagged, or otherwise identified. Further, school owned computers were purchased by the former Superintendent and former High School Principal without documented approval by the Board or documentation of disposition in the asset inventory records.

Adequate capital asset records are necessary to secure better internal control over district property and provide a basis for determining proper insurance coverage required on district property. The inventory shall list such property by descriptive name, serial number, model, age, and estimated market value, and an explanation of material changes shall be attached. Property control tags should also be affixed to all fixed asset items and recorded on the inventory listings to help improve accountability and to ensure that assets are properly identified as belonging to the district.

WE RECOMMEND the School Board ensure complete and accurate inventory records are maintained and implement a procedure for properly tagging and identifying district property.

AUDITEE'S RESPONSE

The School Board provided the following response:

The current Board of Education concurs with the audit findings. Inventory controls need to be improved and formalized so that insurance coverage, replacement and maintenance needs, and continuous instructional needs can be more effectively monitored.

The technology director, in conjunction with administration and program coordinators, is designing an electronic inventory control system with hard copy backup documentation. All items in the audit findings (item description, purchase date, purchase price/replacement price, location, item number/serial number, condition, etc.) will be noted on the inventory control process.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

DREXEL R-IV SCHOOL DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Drexel R-IV School District is located in Drexel, Missouri. The school district lies within Bates and Cass Counties.

The district operates a junior and senior high school (grades 7-12) and an elementary school (grades K-6). Enrollment was approximately 319 for the 2006-2007 school year. The district employed approximately 53 full- and part-time employees, including 3 administrators, 31 teachers, and 19 support staff.

The Drexel R-IV School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary 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 during the year ended June 30, 2007, were:

School Board	Dates of Service During the Year Ended June 30, 2007
Patty Dreher, President	July 2006 – June 2007
Victor Shipley, Vice President	July 2006 – June 2007
Kim Hocker, Treasurer	July 2006 – June 2007
Jeannie Weatherman, Member (1)	July 2006 – June 2007
Chuck Martin, Member	April 2007 – June 2007
Roger Batchelder (2)	July 2006 – March 2007
Christyne Hellebuyck, Member	April 2007 – June 2007
Jerry Wiedenmann, Jr. (3)	July 2006 – March 2007
Kevin Medcalf, Member	June 2007
Keith Mangile (4)	July 2006 – May 2007

- (1) Served as Secretary of the Board from July 2006 through March 2007, and in April 2007 Linda Moles, bookkeeper, was appointed Secretary of the Board.
- (2) Served as President from July 2006 through March 2007.
- (3) Served as Treasurer from July 2006 through March 2007.
- (4) Served as Vice President from July 2006 through March 2007. Mr. Mangile resigned in May 2007 and Kevin Medcalf was appointed to the Board.

The district's other officials during the year ended June 30, 2007, are identified below. The compensation of these officials is established by the school board.

Other Officials	Dates of Service During the Year Ended June 30, 2007	Compensation Paid for the Year Ended June 30, 2007
Patricia L. Yocum, Superintendent (1)	July 2006 – February 2007	\$ 50,071
Clarence J. Kellogg, Superintendent (2)	March 2007 – June 2007	26,563
Gerald Whalen, Principal 7-12 (3)	July 2006 – June 2007	64,563
Ruth Frerking, Principal K-6 (4)	July 2006 – June 2007	57,705

- (1) Received severance wages and benefits in March 2007 totaling \$192,756.
- (2) Served as Interim Superintendent until Dr. Judy Stivers was hired as Superintendent in July 2007 at an annual salary of \$80,000.
- (3) Jerry Braschler was hired as High School Principal in August 2007 at an annual salary of \$57,000.
- (4) Jeff Levy was hired as Elementary School Principal in August 2007 at an annual salary of \$53,000.

Assessed valuations and tax rates for 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Assessed valuation	\$ <u>17,259,973</u>	\$ <u>16,877,437</u>
Tax rates:		
Incidental	\$ 4.3800	\$ 4.2751
Debt service	<u>0.6500</u>	<u>0.7600</u>
Total	<u>\$ 5.0300</u>	<u>\$ 5.0351</u>