



Thomas A. Schweich
Missouri State Auditor

Kansas City 33 School District

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<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Kansas City 33 School District (KCSD)

| | |
|-------------------------------------|---|
| Service Contracts | The KCSD did not always competitively bid or effectively monitor contracts, and cost benefit analyses were not performed to determine how to best provide some services. Some contracts had not been signed, and some contract amendments were not in writing. |
| Disbursements | During the 3 years ended June 30, 2010, the KCSD spent nearly \$2 million on student incentives and over \$2 million on food and meals purchased while not on travel status, but it does not maintain adequate documentation to support the disbursements. The KCSD should also review the Superintendent's \$800 per month car allowance. |
| Capital Assets and Surplus Property | The KCSD does not maintain a complete list of, and has not regularly disposed of, surplus property. The district spends over \$2 million a year for utilities and insurance on the 38 closed schools, but has recently hired an employee to coordinate, manage and oversee the repurposing of the closed schools. Property movement procedures are not followed, making it difficult to track capital assets and ensure they are not misappropriated. Also, the KCSD was paying to lease 11 copiers that were not in use. |
| Board Procedures | The KCSD did not always comply with the Sunshine Law. Open meeting minutes did not always document the vote to close meetings and the reason for closing, and it appears closed meetings were not limited to the topics allowed by law. Also, board members did not always abstain from voting when a conflict of interest existed. |
| Personnel Issues | The KCSD does not adequately identify related employees. The KCSD paid excessive amounts of overtime, and although a new policy requiring pre-approval for overtime has helped reduce overtime costs, it is not always enforced. |
| Accounting Controls | The KCSD lacked adequate controls over student activity funds, which allowed the former principal of Lincoln College Preparatory Academy to make unauthorized disbursements and unauthorized cash withdrawals totaling approximately \$58,000 in 2009. The KCSD should perform timely bank account reconciliations to detect errors or theft promptly. |
| Textbook Procedures | The KCSD should establish formal written policies and procedures to account for all textbooks purchased and ensure students are held accountable for lost or stolen textbooks. |
| Transportation Costs | The KCSD has not performed an analysis of the potential cost savings of increasing their walk-zone from the current 1.5 miles. State law only requires the district provide free transportation for students living at least 3.5 miles from school. In addition, the transportation contractor hired by the district indicated cost savings could be realized by returning to the three-tier bell schedule, rather than the two-tier bell schedule recently adopted. |

Financial Condition

The KCSD reduced expenditures to stabilize the financial condition, which should continue to be monitored.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

The KCSD was awarded the following Federal Stimulus funding:

\$8,598,741 Title I Grant to Local Education Agencies: \$4,136,291 received and \$4,768,621 expended during the year ended June 30, 2010 (FY2010) for salaries and benefits for 83 supplemental teachers, paraprofessionals, instructional coaches, after school tutoring, and student targeted instructional materials and technology.

\$79,554 Title I, Part D Grant to Local Education Agencies: \$4,962 received and \$2,003 expended during FY2010 for two teachers, a paraprofessional, and classroom supplies.

\$5,785,160 Special Education Grant to States: \$2,538,232 received and \$4,573,042 expended in FY2010 for salaries and benefits for 19 classroom positions, 1 part-time nurse and 1 administrator; professional development; and assistive technologies and computer equipment, supplies, and instructional materials.

\$178,094 Early Childhood Special Education Grant: \$6,320 received and \$33,408 expended during FY2010 for specialized educational services.

\$17,572,996 State Fiscal Stabilization Fund - Education State Grants: \$16,435,592 received and expended during FY2010 for salary and benefits for 262 staff members, a stipend for certified staff voluntarily participating in professional development, and bus transportation of students for a portion of a month.

\$239,940 Education Technology State Grant: \$209,364 received and \$179,308 expended during FY2010 for salaries and benefits for three resource teachers.

\$216,371 Head Start Grant: \$0 received and \$18,657 expended during FY2010 for playground equipment, classroom furniture, and supplies.

\$109,066 Education for Homeless Children and Youth Grant to Local Education Agencies: \$0 received and expended during FY2010.

*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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Kansas City 33 School District

Table of Contents

| | |
|------------------------|---|
| State Auditor's Report | 2 |
|------------------------|---|

| | |
|---|--|
| Management Advisory Report - State Auditor's Findings | 1. Service Contracts.....4 2. Disbursements 8 3. Capital Assets and Surplus Property 11 4. Board Procedures 17 5. Personnel Issues 19 6. Accounting Controls.....21 7. Textbook Procedures.....24 8. Transportation Costs.....24 9. Financial Condition 25 |
|---|--|

| | |
|---|----|
| Organization and Statistical Information | 28 |
|---|----|



THOMAS A. SCHWEICH

Missouri State Auditor

To the Board of Education
Kansas City 33 School District

The State Auditor conducted an audit of the Kansas City 33 School District under authority granted in Section 29.205, RSMo. We have audited certain operations of the district in fulfillment of our duties. The district engaged McGladrey & Pullen, LLP, Certified Public Accountants (CPAs), to audit the district's financial statements for the year ended June 30, 2010. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2010. The objectives of our audit were to:

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

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

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

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

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Kansas City 33 School District.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

| | |
|---------------------|-------------------------------|
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Management Advisory Report

State Auditor's Findings

Kansas City 33 School District

1. Service Contracts

Under prior administrations, the district issued some contracts for services without soliciting requests for proposals from vendors. Some contracts provided little or no monitoring criteria to allow for the evaluation of the services provided, and some services were provided without a formal written contract. The current administration canceled or re-negotiated numerous contracts during the past year that were either unnecessary or provided services that could be performed in-house by district staff. The district spent approximately \$80 million during the year ended June 30, 2010, on contracts with vendors to provide a variety of services. We reviewed contracts totaling approximately \$19.5 million.

1.1 Requests for proposals

The district has awarded numerous service contracts in the past several years without soliciting proposals from other service providers or clearly documenting why proposals were not sought. The district had not performed cost analyses to determine the most cost beneficial method of providing some services. The following are examples of service contracts in effect during the year ended June 30, 2010, for which the district did not solicit competitive requests for proposals and/or did not perform a cost analysis to determine if the service could have been provided in-house more efficiently:

- The company which operates the before and after school program, was paid \$5.5 million during fiscal year 2010 and proposals were not solicited for these services. The contract was renegotiated for the 2011 school year, and while services were reduced, the payment is anticipated to be \$1.6 million.
- The district's outside legal counsel was paid \$1.8 million during fiscal year 2010 and has served the district for the past 20 years without the district seeking proposals from other firms. The district restructured the legal department and now performs more of this work internally. The district anticipates \$1.2 million in payments to this firm for fiscal year 2011.
- A company providing both a reading curriculum and professional reading curriculum development was paid \$613,577 during fiscal year 2010 and proposals were not sought. Both contracts were terminated at June 30, 2010.
- The company which manages and operates the district transportation department was paid \$506,124 during fiscal year 2010. The contract was renegotiated for \$485,050 for fiscal year 2011. Proposals were not sought for this service and a cost analysis has not been conducted.
- The company which managed the Human Resources Department from August 2007 to September 2009 was paid \$892,906, including \$138,848 in fiscal year 2010. The new administration canceled this



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

contract in September 2009, and these services are now performed by the district.

- The district paid a contractor \$1,149,162 between January 2006 and December 2009 to install computers. It is unclear from meeting minutes why this vendor was selected. Proposals for these services were not solicited, nor did the board attempt to determine whether these services could be provided in-house during this contract period. The new administration canceled this contract and these services are now provided by the district IT department.
- The district contracted with two different vendors to provide food service from 2007 to 2010. Losses from food service operations exceeded \$2 million each year during that time period. Prior to 2007, food service was provided by the district and based on data provided by the district, losses during the 2 fiscal years prior to contracting out these services were under \$500,000 each year. Although a formal cost analysis was not performed, the new administration determined it would be more efficient and less costly to provide these services in house and for fiscal year 2011, the district expects the food service to make a small profit.

Soliciting proposals for services is a good business practice, helps provide a range of possible choices, and allows the district to make better-informed decisions to ensure necessary services are obtained from the best qualified provider taking expertise, experience, and cost into consideration. Contracts for services which could be provided more economically are a drain on resources of the district. Continued examination of contracts by the district administration will help ensure district funds are spent wisely and in the best interests of the students and taxpayers.

1.2 Monitoring

The district did not always include monitoring criteria and/or monitor service contracts effectively. Some contracts had monitoring criteria which were vague or non-existent.

- The contract with the organization that operated the K-12 African Centered Education (ACE) Program during fiscal year 2010 and 2009 was for \$1.2 million per year and contained minimal performance criteria. The ACE contractor was required to submit quarterly financial reports to the board which were to include detailed statements of all revenues received from the district and all other sources and direct expenditures rendered to or on behalf of students. The contractor did not submit these reports. In addition, the contractor did not submit detailed invoices as required in the contract.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

- The \$1.2 million contract for alternative education during fiscal year 2009 stated the program would be measured by comparing levels and trends of student attendance and achievement before and after, and in some cases during, program intervention. District administration stated this was not done.
- The \$40,000 contract for student violence and gang prevention services for fiscal year 2009 and the transportation management services contract for \$500,000 per year during fiscal year 2010 and 2009 contained no performance assurances or measures. These programs and services have not been formally evaluated to ensure the programs are effective and the services contracted for are provided.
- The contract for Human Resources Department management, totaling over \$850,000 between August 2007 and September 2009, contained some performance criteria and measures; however, the district did not formally evaluate the contractors' performance monthly as required by the contract.
- As indicated above, losses on food service operations exceeded \$2 million each year from 2007 to 2010. The district did not monitor the food service management contractor to ensure the department was operated efficiently and effectively. Accounting personnel for the district indicated the contractor failed to hold students accountable for unpaid meals.

Considering the amount the district spends on service contracts, clearly stating performance measures and monitoring performance closely will help the district ensure limited resources are spent wisely by holding the contractor accountable for quality and reliable services.

1.3 Written contracts

Some service contractors were allowed to operate without a signed contract. In addition, the board approved additional payments on several contracts without formally amending the contracts.

- The former board President failed to sign agreements with the contractors hired to provide computer installation and setup services and violence and gang prevention services.
- The district had a 7 month contract (December 1, 2007 to June 30, 2008) with the African Centered Education (ACE) Program for \$524,685 to operate the center. In October 2008, this contract was extended for the year ended June 30, 2009, and the contract amount was increased to \$1,197,036, but the contract was not formally amended by the board. On May 26, 2010, the board renewed the



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

contract for the year ended June 30, 2010, at the same cost as the prior year and again the contract was not formally renewed.

- During fiscal years 2009 and 2010, payments to the contractor for asbestos remediation and environmental cleanup services exceeded the contract amount by \$925,345. The original \$100,000 contract was for the period June 2008 through July 2009. An additional \$540,000 was approved by the board in July 2008 due to an unforeseen emergency and an additional \$77,080 was approved by the board in December 2008; however, the contract was not amended for these additional payments. In May 2009, the board approved an additional \$988,941 for services needed at one school and a separate agreement was signed. In addition, in May 2010, the board approved a payment of \$308,265 in excess of the amount contracted for the same services at a different school without formally amending the contract.
- The district contracts for elevator repairs and maintenance. In June 2010, the board approved an additional \$167,121 in excess of the contract amount of \$175,000. The board did not amend the contract.
- Payments to the former food service management contractor exceeded the contract amount of \$5,219,250 by \$923,694 or 17.7 percent during fiscal year 2009 and \$1,216,702 or 23.3 percent during fiscal year 2010. Accounting personnel indicated the overpayments were, at least in part, the result of the district underestimating the number of meals to be provided to students. The contract was amended twice, but the amendments were not sufficient to cover the full cost of the service.

The failure of the district to obtain signed contracts prior to authorizing contractors to perform services exposes the district to unnecessary risks. If these contractors fail to perform the duties required in the contracts, the district may not be able to enforce the requirements of the agreements.

Further, any changes to an original contract should be properly documented in a formal written contract amendment to ensure all parties are aware of their responsibilities and to prevent misunderstandings.

Recommendations

The Kansas City School Board:

- 1.1 Periodically solicit proposals for all services and ensure adequate documentation is maintained to support the evaluation and selection process. In addition, the district should continue to examine the need for certain service contracts and take appropriate action as necessary.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

- 1.2 Ensure service contracts include appropriate criteria which provide a means to monitor contractor performance and ensure each contract is monitored properly.
- 1.3 Ensure contract agreements are signed by all necessary parties prior to the effective date. In addition, any changes should be properly documented in formal written contract amendments.

Auditee's Response

The Kansas City School Board provided the following written responses:

1.1 *Procurement procedures require all construction projects over \$15,000, and all other contracts over \$25,000 to be formally bid. For contracts under these thresholds, procedures require three formal bids on company letterhead. If the District is able to utilize an existing contract bid by another governmental entity such as the city of Kansas City, or the state of Missouri the bid process may be waived. If the vendor's service is determined to be "sole source", the contract is exempt from bid requirements.*

1.2 *In 2010 the district implemented a procedure requiring the larger term and supply multi-year contract vendors to attend quarterly meetings with the procurement department's contract compliance staff, the accounts payable manager, the department head or designee for whom the contract is assigned, and when needed, a member of the District's legal staff.*

Small vendor contracts are monitored by the department being serviced by the vendor, with support by the procurement contract compliance staff when requested.

The procurement department requires the department utilizing the vendor's services to submit a vendor annual evaluation. If the evaluation is not completed, the contract will not be renewed.

1.3 *The District's legal and procurement staff monitor the signature pages for contracts to ensure that the superintendent and board president both sign all contracts. Contract language has been modified so that the contract does not go into effect until all signatures are received.*

2. Disbursements

The district spent almost \$2 million on student incentives between fiscal years 2008 and 2010, with few controls in place to ensure the awards and incentives were actually given to students. A policy has not been adopted to establish controls over non-travel food. In addition, Superintendent Covington's car allowance appeared excessive.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

2.1 Incentives

The district does not maintain documentation to support the distribution of student incentives purchased by teachers and school administrators. In addition, the total amount expended on student incentives appears excessive.

Student incentives reviewed included awards such as trophies, plaques, medals, and certificates; gift cards to restaurants, movies, and shopping malls; tickets to baseball games and amusement parks; t-shirts; and electronics such as DVD players and iPods. Students are given these incentives for academic and athletic achievements, and most of the incentives we reviewed were given at the end of the school year. The district expended funds for student incentives during fiscal years 2008 through 2010 as follows:

| Fiscal Year | Amount |
|-------------|------------|
| 2008 | \$ 929,154 |
| 2009 | 707,686 |
| 2010 | 187,360 |

Incentives were reduced in 2009 due to the elimination of procurement cards (the majority of incentives were purchased by teachers and school administrators with procurement cards) and by requiring the use of purchase orders for all purchases. Incentives were further reduced in 2010 through budget cuts (student incentives were cut 70 percent).

For future incentives, maintaining adequate records to support the distribution will provide assurance that all gifts and awards are distributed to students and used for the intended purposes.

2.2 Food and meals

The district does not have a formal policy regarding the purchase of food and meals while not on travel status and adequate documentation was not usually available to support these purchases. The amounts spent by the district on food and meals, excluding child nutrition and employee meal costs while on travel status, were as follows:

| Fiscal Year | Amount |
|-------------|------------|
| 2008 | \$ 924,367 |
| 2009 | 778,605 |
| 2010 | 330,497 |

The amount expended on food and meals was reduced in 2010 as a result of two policy changes. Internal controls were improved through the elimination of procurement cards (the majority of food and meals were purchased with these cards) and by requiring the use of purchase orders for all purchases. Food and meals were further reduced in 2010 through budget cuts (food and meals were cut 50 percent). We identified the following



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

concerns when reviewing food and meal charges made by board members and district employees.

- Between July 2008 and June 2010, board members and former Superintendent Coleman purchased food totaling \$3,707 with district procurement cards. While some of these purchases were for catering for meetings at the Board of Education office, the majority were for meetings held at restaurants in Kansas City. For example, one board member charged \$103 to a procurement card on April 18, 2009, and another charged \$70 to a card on March 2, 2010. Detailed receipts were included with the procurement card logs, but there was nothing to indicate who attended and the purpose of the meetings.
- District employees purchased food and meals for staff meetings; staff appreciation events; retirement parties; staff trainings; and student field trips, award ceremonies, banquets, dances, graduation ceremonies, and performances. For most purchases reviewed, the names of those in attendance were not documented and, in some instances, the purpose was not documented. For example, \$938 was paid to a vendor in May 2009 for a staff meeting lunch; however, those in attendance were not documented.

Without detailed supporting documentation, including the purpose of the event and the attendees, the district cannot determine if the expenditures were reasonable and necessary uses of public funds. The district should develop a comprehensive policy establishing guidelines for food purchases, including a requirement that the purpose of all food and meal purchases be sufficiently documented to ensure public funds are spent only when necessary for the operation of the district.

2.3 Superintendent car allowance

The \$800 monthly car allowance included in Superintendent Covington's contract did not appear reasonable, especially considering the district owns a car available for administrative staff to use, including the Superintendent's use. The payment was intended to cover the Superintendent's in-district travel costs. The mileage rate allowed by the Internal Revenue Service for business travel during 2010 was 50 cents per mile, down from 55 cents in 2009. At 50 cents per mile, the Superintendent would have to travel an average of 1,600 business-related miles per month to earn \$800 in reimbursement.

The Superintendent's car allowance appeared unreasonable and did not appear to be an efficient use of district funds. The car allowance should be based on a reasonable estimate of miles driven in-district monthly.



Recommendations

The Kansas City School Board:

- 2.1 Ensure adequate documentation is maintained for the distribution of student incentives.
- 2.2 Develop a comprehensive policy regarding food purchases. This policy should establish specific guidelines regarding proper and allowable expenditures, along with documentation requirements including the purpose of meetings and individuals in attendance.
- 2.3 Set the Superintendent's car allowance at a more reasonable level.

Auditee's Response

The Kansas City School Board provided the following written responses:

- 2.1 *Under current guidelines, student incentive programs, awarding items of nominal value, are handled primarily by the school, paid with local school fund-raisers and donations.*
- 2.2 *Purchase of food, unless there is a demonstrated need or requirement is discouraged. Certain grants require the district to meet family involvement and participation standards, and recommend food be provided as an encouragement to attend. On a limited basis, professional development activities, funded by state and federal grants allow for the purchase of food. District procedures now require the meeting agenda and attendee sign-in sheets be submitted to the Business office to document the need for the food purchased.*
- 2.3 *The travel allowance for Dr. Covington was negotiated with the Board of Directors when he was hired in 2009. The vehicle was purchased for the use of administrators for travel both within the district and out of town. The superintendent does not use the vehicle for his exclusive use.*

3. Capital Assets and Surplus Property

An excessive amount of surplus property is kept in storage and is not adequately tracked. The district maintains 38 closed schools, and significant costs are incurred to maintain these schools. Controls and procedures over the annual inventory process for district-wide capital assets need to be improved, and leases for assets should be reviewed more closely.

3.1 Surplus property

The district currently maintains excessive amounts of surplus property and does not maintain a list of surplus property not capitalized, such as lunch tables, student desks, and chairs. A former school building is used as a storage facility by the district. Many rooms at the school contain classroom and office furniture and computer equipment, most of which is obsolete. The property is stored in an unorganized manner, and it is difficult to tell exactly what is available for use.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

In February 2011, the district disposed of 19 vehicles and surplus food service equipment through online auctions, and the proceeds from these sales totaled \$15,390. Prior to that, the district had not had a surplus property sale since 2005. In addition, while the district recently disposed of some obsolete computer equipment, there is still a significant amount of this equipment on hand. The current administration indicated this is an area it plans to address as soon as time allows.

By maintaining a complete and accurate inventory of surplus property and making all schools aware of surplus property items available, the district helps ensure any school in need of such property can have access to it and purchases of equipment already on hand can be avoided. Any unused or obsolete equipment should be disposed of properly to generate revenues and/or clear out storage space.

3.2 Unused buildings

The district maintains a large number of unused buildings and paid a significant amount for utilities for these closed schools during the last fiscal year. According to district officials, approximately \$2.2 million was paid for utilities and insurance at the closed schools during the year ended June 30, 2011. At June 30, 2010, the district had 38 closed schools with a total net book value of approximately \$49 million, and seven vacant lots. Twenty-one buildings were closed in 2010 (one was reopened); nine were closed in 2009; and nine were closed prior to 2009.

The district has recently increased its efforts to sell most of the properties, but must deal with significant constraints. The buildings are owned by the Kansas City Missouri School District (KCMSD) Building Corporation, a not for profit entity, and any sales must be approved by the KCMSD Building Corporation. In addition, some of the buildings must be sold to a not for profit entity, as required in the bond indenture documents.

According to district officials, 8 closed buildings are being retained for future district use and the district is currently evaluating the other 30 closed buildings to determine their potential for alternative uses. In addition, the district hired an individual in January 2011, who will be responsible for the coordination, management, and oversight of the repurposing of the closed schools.

By allowing many of these buildings to remain unused and to deteriorate, the district will not receive maximum value for the properties and will pay significant amounts for utilities and insurance in buildings that are not being used to educate students.

3.3 Inventory

Property movement procedures are not followed. As a result, the capital asset list is inaccurate and a large number of assets cannot be accounted for each year during the annual inventory. In addition, the annual inventory is not completed in a timely manner.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

Equipment, furniture, and vehicles were valued at \$31.1 million at June 30, 2010. The annual physical inventory for fiscal year 2010 was performed at 58 district buildings, included 56,600 items, and took 8 months to complete. The district contracted with a vendor at a cost of \$24,000 to perform physical inventories at 36 locations to speed up the inventory process, and the contractor almost always completed the inventories of each location within 2 months. The remaining 22 locations were inventoried by property custodians including teachers, administrators, custodians, etc. who were paid \$500 each (\$11,000 total) and the inventories at each location took about 5 months to complete.

Our review of fiscal year 2009 and 2010 inventory records revealed a large numbers of assets at various locations could not be located during the inventory process. The results of the 2010 inventory indicated 4,420 items (8 percent), valued at \$2.6 million, were not located. In 2009, 54,244 items were inventoried at 54 locations, and the results indicated 4,649 items (9 percent), valued at \$2.7 million, were not located. The Asset Manager indicated that after a school's annual inventory is completed the Principal and the Property Custodian must complete an Asset Validation form to verify the assets were not located at that building. No other documentation was available to indicate the misplaced items were investigated. The majority of the misplaced items listed on the Asset Validation forms are laptop computers, other computers, cameras, and other electronic equipment.

The Asset Manager indicated one reason the asset list is not accurate is that procedures in place for property movement are not followed. Property transfer forms, which notify the Asset Manager of property movement, are not always accurate or complete or are not sent to him in a timely manner. We discussed the missing items with the Asset Manager who indicated these items were most likely moved to the district's storage facility, and no property movement form was completed or submitted to him as required. However, we found no documentation to indicate that any of the misplaced items were later located at the district's storage location. In addition, the district has not developed procedures to determine if misplaced items from the annual inventory at a certain location were moved to another location (other than the storage facility) without completion of a property transfer form. During our test of property at the district's storage facility, four of five items tested were not on the district's inventory list at that location, and had apparently been moved there without notifying the Asset Manager. Instead, the property items were still listed at the schools where they had been previously located.

District assets represent a considerable investment and should be adequately safeguarded from loss or theft. The district should consider conducting more frequent inventories of sensitive items which are highly susceptible to loss or theft or have a high level of desirability for personal use. Any items not located should be investigated immediately. Failure to do so reduces the



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

possibility the items will be located. Without documentation of property changes and movements, the capital asset records are likely to be inaccurate.

3.4 Leased copiers

Leased assets are not controlled and accounted for properly. The district had a contract to lease 282 digital copiers at an estimated total cost of \$2.75 million over 4 years (\$9,750 per copier). The contract expired on June 30, 2011.

Accounting personnel indicated copiers are inventoried prior to awarding a new contract and replaced based on usage needs. We obtained a list of the leased copiers and their original locations from the Board Services office. Fourteen copiers were listed as being located at five closed schools. At our request, the district attempted to locate these 14 copiers. The Purchasing Manager found that three of the copiers had been moved to another building, two were still at a closed school, and nine were moved to storage. Eleven copiers in total were not in use and the district continued to incur expenditures for these copiers.

To eliminate unnecessary expenditures, leased copier contracts should be monitored and contracts for unused copiers canceled.

Recommendations

The Kansas City School Board:

- 3.1 Maintain an inventory of surplus property and make a list of surplus property available to the schools. Any unusable items should be disposed of properly.
- 3.2 Continue efforts to identify alternative uses for surplus real estate properties and sell the properties which cannot be utilized for another purpose.
- 3.3 Ensure the annual physical inventory is performed in a timely manner, and missing items are promptly investigated and compared to lists of assets located at locations other than the one listed in the inventory system. Appropriate controls should be implemented to safeguard assets highly susceptible to loss or theft. In addition, the board should ensure property movement forms are complete, accurate, and submitted in a timely manner.
- 3.4 Conduct periodic inventories of leased copiers and consider amending the copier lease to allow for the return of unused copiers or relocate them to another building where they may be utilized.

Auditee's Response

The Kansas City School Board provided the following written responses:

- 3.1 *In June 2010, the district closed 30 buildings, and in the ensuing months has been cleaning out the closed buildings, transferring property to open schools, and auctioning off surplus property the*



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

district no longer needs. The Fixed Assets, Purchasing, Information Technology, and Facilities Departments have jointly worked to audit the contents of each closed building. Remaining items determined to be re-utilized in the schools have been inventoried, made available for school administrators to review, and are moved into their schools.

An inventory company was hired to work with the Property Manager to validate all items moved from closed to open schools. All items were scanned when leaving a closed school and rescanned at their final destination. The receiving school verified the items they received. A detailed listing of items moved was provided to the Property Manager to update the database. To date, the process has resulted in 100% accountability of moved items, with nothing stolen or lost.

The district has contracted with the City of Kansas City, Missouri to inventory and auction off assets that were jointly determined by the district and the City's Surplus Property Manager to have a resale value. The City moves the assets to their secured warehouse where the items are available for the public to preview. Upon sale of asset, the City provides the Property Manager a bill of sale, checks and summary of items sold. The district to date has received approximately \$50,000 for these items.

- 3.2 *The Board of Directors established an Office for Repurposing in January 2011. The board funded a repurposer and staff to oversee the transformation of the 38 closed buildings resulting from several years of school closures. The plan is to involve the community in decisions for the most effective use of the buildings for either education or non-education use. The repurposer has proposals for the Board of Directors to either lease or sell the remaining closed sites, unless the buildings have been moth-balled for future district use. The goal is to not only prevent neighborhood blight caused by closed buildings, but also generate revenues from the lease and or sale of buildings. This will enable the District to save significant dollars currently paid for utilities and insurance for these buildings.*
- 3.3 *To ensure inventories are completed timely, all inventories, taken after July 1, 2011, will be performed by the third party vendor. The inventories are scheduled in the buildings from the beginning of October through the end of April. Each high school takes three to four days and an elementary school two days. Two days after the vendor completes the inventory, the fixed asset manager issues a report to the principal/site administrator, providing the results of the inventory. Depending on the size of the building, the principal/administrator is given fourteen to twenty one days to*



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

investigate unlocated items and report the result back to the fixed asset manager.

The district tags and tracks approximately 56,000 items ranging from small electronics to curriculum tools to cafeteria equipment. These items are located in 58 school and administrative sites. Annually every site is inventoried to account for each item. Each inventory item is tracked by building and room location.

In 2008, the Board of Directors voted to re-align grade configuration in the school buildings, moving from an elementary, middle and high school format to K-8, 9-12 configurations. As the results of this change, approximately 40% of all inventoried items were moved to a new room in a building or from one building to another or deemed surplus and moved into storage for future disposition.

In May, 2010 the Board of Directors voted to right-size the district by closing 30 schools at the end of school year 2010 and change the grade configuration from a Pre-K, K to 8 and 9 to 12, to a Pre-K to 6, and 7 to 12 configuration. As soon as the 2010 school year ended, the district had a few short months to prepare the remaining open buildings to handle the increased enrollment from students transferring from the closed buildings. Massive amounts of property were moved from the closed schools to open schools. Elementary schools now needed desks, books and equipment for three and four year old students as well as middle school students. As the FY11 school year opened, inventoried items were moved between classrooms to address student needs. The massive amount of movement of property during the short time did not allow for a comprehensive and orderly inventory of property movement. Rather than engage in a special inventory, the regular annual inventory process was used to update the movement of property. Because every site is not done at once, an item moved from one site to another, would be classified as unlocated at the original site until the receiving site where it was moved was inventoried.

Beginning in early 2010, to improve the safekeeping of mobile electronic devices, the district began utilizing various technologies tracking and monitoring options. The district utilizes an asset recovery service whereby software is loaded on every district computer. When the computer connects to the internet, the IP address where the computer is located is recorded. Reports are generated daily notifying the Property Manager of computer locations. Email alerts are sent to the Property Manger when the computer is used somewhere other than authorized IP addresses, or if the computer is modified or its' configuration changed.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

If a computer is reported missing, the tracking technology allows the software administrator to send a message to the computer when it logs into the web, and freeze the device. Stolen property is reported to the police, and the asset recovery software vendor guarantees recovery of the property or compensation if not recovered.

Before devices are issued to employees, they are required to sign paperwork making them personally responsible for the custody of the property. Procedures will be put in place beginning July 1, 2011, which will require periodic visual verification by the school administration of items susceptible to loss or theft.

- 3.4 *In conjunction with the closing of school buildings, and realigning of grade configurations in the remaining sites, in August, 2010 the district conducted an evaluation of district wide copier needs. The number of copiers has been reduced from 282 to 125, as of July, 2011.*

4. Board Procedures

Violations of the Sunshine Law were identified, including the failure to publicly announce and document the vote and reasons for closing a meeting, and failing to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law. In addition, a board member did not abstain from approving a contract where a conflict existed.

4.1 Sunshine Law

The district did not always adhere to the requirements of the Sunshine Law when conducting closed meetings. The board typically holds a closed session meeting before each public meeting. During our review of the closed session minutes, we noted the following concerns:

- While a vote is taken on the issue of closing the meeting and reasons are cited for the closure, this vote is taken in the closed meeting and documented in the closed minutes; the votes and reasons for the closure are not announced publicly and documented in the open session minutes, as required by state law.
- The motion to go into closed session typically cites legal, personnel, and real estate matters as the topics to be discussed. However, we noted that not all of these topics are discussed at each closed session.
- Minutes were not always sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law. We noted issues such as discussions of compliance concerns related to the Head Start program, discussion of possible staff reductions due to budget reductions, numerous staff contract renewals where specific work performance was not documented,



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

purchase of a car, and approval of service contracts to install boilers at two schools.

The Sunshine Law, Chapter 610, RSMo, states the specific reasons governmental bodies are allowed to close a public meeting and states the vote to close a meeting, and the specific reasons for closing the meeting, are to be announced publicly at an open meeting and entered into the minutes. Citing potential issues that may be discussed in a closed meeting appears to circumvent the intent of the law. In addition, Section 610.022, RSMo, states that meetings shall only be closed for the specific reasons announced to justify the closed vote or meeting.

4.2 Conflict of interest

The contract to operate the African Centered Education (ACE) Program and the contract with the Mid America Regional Council (MARC) for the subaward of Head Start grant funding may represent conflicts of interest as former board members failed to submit a statement of interest or abstain from voting on all matters concerning the contracts.

Former board member Marilyn Simmons was employed by a company owned by the ACE board president. In addition, former board member Cokethea Hill was employed by the MARC.

The Board's current policy which was adopted in June 2010 requires members to annually disclose their involvement with organizations or with vendors, staff, or students and any other association that might be reasonably seen as representing a conflict of interest. Further, while the prior conflict of interest policy did not prohibit a member from voting on motions for the district to do business with the entities that employ the board member, it did require the member to submit a statement of interest if the member had a substantial personal or private interest in a decision before the board. A substantial interest was defined as existing when the member, his or her spouse, or dependent children, either singularly or collectively, directly or indirectly owned ten percent or more of any business entity; owned an interest having a value of \$10,000 or more in any business entity; or received a salary, gratuity, or other compensation or remuneration of \$5,000 or more from any individual, partnership, organization or association within a calendar year. The former board members failed to submit statements of interest as required prior to voting on the contracts.

To reduce the appearance of a conflict of interest, related parties should abstain from voting.

Recommendations

The Kansas City School Board:

- 4.1 Ensure the vote and reasons for closing a meeting are announced publicly and documented in the open meeting minutes and potential topics are not listed unless the board actually plans to vote on or



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

discuss those issues. In addition, the board should ensure items discussed in closed meetings are allowable topics under state law.

4.2 Avoid the appearance of conflicts of interest.

Auditee's Response

The Kansas City School Board provided the following written response:

4.1 *The District consistently strives to strictly adhere to the narrow construction of the Open Meeting Law. We will provide more detail of the proceedings in the Closed Meeting minutes to support and reflect those efforts.*

4.2 *On June 23, 2010 the Board of Directors adopted a Conflict of Interest and Disclosure policy. The policy establishes a process for self management, enforcement and administration of the policy. Annually board members will complete a Conflict Disclosure form identifying any relationships, positions, or circumstances in which he/she is involved that could contribute to a conflict of interest or the appearance of a conflict of interest.*

5. Personnel Issues

The district has not established an adequate method to identify related employees. Overtime paid appears excessive, and no controls were in place until recently to help monitor the amount of overtime employees were working.

5.1 Related parties

The district has not established an adequate method to identify related employees. The board policy manual states the Superintendent shall not allow the district to operate without sufficient written rules, expectations, and processes, whether written or not, that fail to avoid conflict of interest or subject staff to wrongful conditions, including nepotism and preferential treatment based on personal or unprofessional reasons. The district does not require new employees to identify all current district employees they are related to. In addition, the district does not maintain a record of related parties.

The lack of a formal policy and the absence of data on related employees increases the likelihood of weakened internal controls and a lack of independent evaluation of employee performance.

5.2 Overtime

Prior to fiscal year 2010, overtime was not monitored. The district does not have a policy limiting the amount of overtime an employee is allowed to work. In addition, while pre-approval of overtime is now required, we noted several instances where pre-approval was not obtained. As a result, the amount of overtime paid to employees was excessive.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

| Fiscal Year | | Amount |
|-------------|----|-----------|
| 2008 | \$ | 2,945,367 |
| 2009 | | 2,535,671 |
| 2010 | | 1,031,717 |

We noted numerous employees received significant amounts of overtime compared to their normal salary. One custodial foreman received overtime payments totaling over \$56,000 and \$30,000 during fiscal years 2009 and 2010, respectively; his normal salary is \$41,509.

The new administration began monitoring overtime and approved a new overtime policy in fiscal year 2010, and as a result, reduced overtime by more than 64 percent. The new policy requires all overtime to be pre-approved by the employee's supervisor, department head, and the Chief Financial Officer. While overtime was reduced, we noted the pre-approval of overtime by the various required supervisors was not always obtained.

Security officers and custodians account for more than 50 percent of all overtime expenses. Cost analyses or studies to determine whether hiring additional employees would be more cost effective than paying significant amounts of overtime to existing staff have not been performed. Some changes have already been made by the new administration in both departments. Lead positions were eliminated; thereby reducing the ability of these employees to receive more overtime than others as a result of their supervisory position. The district is currently in the process of determining additional cost saving measures for these departments including outsourcing the services.

The district should limit the amount of overtime an employee is allowed to work to ensure payroll is used as efficiently as possible. An analysis of overtime would help to determine causes of overtime and identify ways to reduce these costs. Policies regarding pre-approval of overtime should be followed to ensure overtime is necessary and all supervisors are aware of the amount of overtime incurred by employees.

Recommendations

The Kansas City School Board:

- 5.1 Establish procedures to update related party information, verify information with each employee periodically, and ensure individuals are not working in conflicting employment capacities.
- 5.2 Perform a cost analysis to determine whether hiring additional employees would be more cost-effective than paying significant amounts of overtime to existing staff. In addition, the board should ensure overtime is pre-approved in accordance with policy.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

Auditee's Response

The Kansas City School Board provided the following written responses:

- 5.1 *Every employee will be required annually, to complete a questionnaire disclosing relationships with other employees, or board members.*
- 5.2 *The overtime policy put into place with this administration has resulted in a reduction in overtime costs from \$2.8 million in FY09, to \$1.1 million in FY10, and projected to be less than \$550,000 in FY11. Budget holders have been asked to evaluate the use of overtime, and part time positions have been established where applicable to reduce overtime costs.*

6. Accounting Controls

Due to inadequate controls over student activity funds, the district did not detect unauthorized disbursements totaling \$58,000 made by the former Principal of Lincoln College Preparatory Academy. In addition, district bank accounts are not reconciled on a timely basis.

6.1 Unauthorized disbursements

Internal controls over student activity funds and procedures for monitoring disbursements and withdrawals from these accounts by internal audit, especially during summer months, are inadequate. As a result, the former Principal at Lincoln College Preparatory Academy, Jamia Dock, made unauthorized disbursements and unauthorized cash withdrawals from student activity funds.

The Student Activity Policy requires the treasurer (any school employee) at each school to deposit all monies received for student activities and disburse the monies for appropriate expenses upon the submission of an invoice or other adequate documentation. Two signatures are required for all disbursements. Further, the policy requires each treasurer to submit activity reports including copies of all invoices and bank reconciliations to internal audit by the 15th of every month; however, June, July, and August are not required to be submitted until September 15th. The May 2009 report submitted by the Lincoln College Preparatory Academy Treasurer on June 15, 2009, indicated a balance of \$40,741. The majority of the inappropriate disbursements occurred between June and August 2009 and may have been caught in a more timely manner if monthly reports had been submitted during those months.

In August 2009, the district was contacted by its depository bank and informed that the student activity account balance for Lincoln College Preparatory Academy was negative. In addition, the former Treasurer of the student activity account informed the district about an inappropriate alteration of a deposit slip by Ms. Dock. While the former Principal was the second signature on the account, deposits were supposed to be made by the Treasurer. The district hired an auditing firm to perform a forensic investigation of the account. The auditing firm identified \$58,849 in either unauthorized transactions or un-deposited receipts by the former Principal.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

Between July 2008 and June 2009, 56 checks totaling \$28,526 were issued from the student activity fund to the former Principal and vendor receipts were not located to support 45 of those payments or \$23,226. The district was able to recover \$33,744 from the bank.

In addition, the former Principal initiated and signed 39 withdrawals via bank counter checks at various bank branches between June and August 2009, after the student activity account check book had been turned in to the district office for the summer. The total amount of the counter checks was \$47,729, of which \$33,196 were for cash and \$14,533 were for 17 cashier checks. Adequate supporting documentation was submitted by the former Principal for 15 of the cashier checks; however, no supporting documentation was submitted to internal audit for the \$33,196 in cash and two cashier checks, totaling \$1,262, as required by policy.

Also, the auditing firm noted four deposits slips totaling \$1,774 of which \$1,165 was not deposited. These deposits were prepared by the former Treasurer and given to the former Principal for deposit.

The district terminated Ms. Dock in September 2009, and contacted both the Kansas City, Missouri, Police Department and the county Prosecuting Attorney. Charges were filed against her in March 2011. Ms. Dock was hired as the Principal of the ACE Upper Campus (a district contractor) for the 2010-2011 school year.

Since the identification of the unauthorized transactions, the district has improved internal controls over student activity fees at six high schools and six elementary schools with the hiring of bookkeepers and the installation of standardized software to record receipts and disbursements for the 2011 school year and will implement those measures at all schools for the 2012 school year. In addition, the district revised the written policy and procedures over student activity funds during fiscal year 2011.

Timely monthly reports, including bank reconciliations, are important to ensure bank activity and accounting records are in agreement and to detect and correct errors in a timely manner. In addition, to ensure the validity and propriety of disbursements, adequate supporting documentation should be obtained for all goods and services.

6.2 Bank reconciliations

The district checking account was not reconciled on a timely basis. During our discussion with the accounting manager in May 2010, we were told a bank reconciliation of the checking account had not been attempted since October 2009. We reviewed the October 2009 bank reconciliation and noted an unreconciled difference of \$1,180. As of March 2011, the checking account has been reconciled through February 2010 with no un-reconciled difference. Accounting personnel indicated bank reconciliations were not completed in a timely manner due to multiple staffing changes that required reassignment of job responsibilities and training on the reconciliation



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

process. The Chief Financial Officer indicated the bank reconciliation process would be complete by the end of fiscal year 2011.

Timely bank reconciliations are important to ensure bank activity and accounting records are in agreement and to detect and correct errors in a timely manner. Lengthy delays in reconciling bank accounts could result in significant errors or discrepancies going undetected for an extended period of time.

Recommendations

The Kansas City School Board:

- 6.1 Continue to work with law enforcement officials regarding criminal prosecution for the missing funds. In addition, the board should ensure student activity accounts are reconciled on a timely basis and adequate supporting documentation is submitted before payments are made.
- 6.2 Ensure bank accounts are reconciled on a timely basis.

Auditee's Response

The Kansas City School Board provided the following written responses:

- 6.1 *In July, 2010 the district hired bookkeepers for all high schools and the largest elementary schools. In June, 2011 additional bookkeepers were hired to staff the remaining elementary schools. During FY11, the internal audit department conducted site visits throughout the year to review student activity reconciliations and record keeping. Throughout the year, the bookkeepers work closely with the Accounting Manager and ongoing training is conducted to reinforce processes and procedures. A student activity software system was purchased in June, 2010, and utilized at each school staffed with a bookkeeper. The software allows the Accounting Manager to remotely monitor reconciliations.*

During school year 2009-2010 a decision was made to expand the scope of the FY10 district annual financial audit to include audits of the student activity accounts. The results of that audit were incorporated into the ongoing training of bookkeepers, principals, and support staff in the schools.

- 6.2 *As part of the downsizing needed to bring fiscal stability to the organization, the district made a number of staffing reductions and realignments of duties within the Business division. A permanent staff assignment of the bank reconciliation duties was made in June, 2010 and the reconciliations are now reconciled timely.*



7. Textbook Procedures

The district does not adequately account for all textbooks purchased. Annual textbook inventories are not documented and students are not held accountable for lost or stolen textbooks. In fiscal year 2010, textbook expenditures totaled approximately \$4.4 million.

Administration at each school building is responsible for storing, inventorying, and ordering (through the district textbook coordinator) books; distributing books to staff and students; and maintaining textbook documentation in a database. However, no formal textbook policies and procedures have been developed. As a result, annual inventories are not documented.

According to the student handbook, any book, equipment, or material loaned to a student will be charged to the student at replacement cost if it is not properly returned or it is destroyed or mutilated. In addition, each student and parent/guardian is required to sign a textbook receipt acknowledgement form. However, district personnel indicated this policy was new in the 2009-2010 school year and is not enforced district wide.

Recommendation

The Kansas City School Board establish uniform written policies and procedures which clearly document the duties and responsibilities of the district textbook coordinator and the administration at each school. In addition, the board should develop procedures to ensure students are charged for unreturned, destroyed, or mutilated textbooks in accordance with the student handbook.

Auditee's Response

The Kansas City School Board provided the following written response:

The district is in the process of replacing the student record system software with one that allows for the inventory and assignment of textbooks to individual students. This should allow for increased accountability of the student, and will allow administration to track how well the local school administration enforces procedures outlined in the student handbook.

8. Transportation Costs

Despite its declining financial condition, the district has not adopted certain cost saving measures in its transportation department. During the school year 2009-2010, the district spent approximately \$15.1 million on pupil transportation and expects to expend \$14.3 million in fiscal year 2011.

The district currently has a 1.5 mile walk-zone and provides free transportation to students living at least 1.5 miles from a school. Per Section 167.231.1, RSMo, the district is only required to provide free transportation to students living more than 3.5 miles from school. An analysis of potential costs savings of increasing the walk zone has not been performed.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

In addition, the district chose to reduce the number of bell times from three to two for the 2010-2011 school year due to the elimination of middle schools. Elementary schools now serve pre-kindergarten through sixth grade and high schools serve grades 7 through 12. In a memo to the Chief Operating Officer in April 2010, the contracted transportation management company recommended maintaining a three-tier bell time structure, because moving to a two-tier bell time would require an additional 50 to 100 buses and increase transportation costs between \$1 million and \$4 million. Rather than follow the recommendation of the transportation management contractor, the district increased the bus load counts and implemented other measures to keep the transportation budget for fiscal year 2011 from increasing. Had the district kept the three-tier bell time structure and implemented other cost saving measures, significant cost savings may have been realized.

In light of the current financial condition of the district, the district should evaluate the potential cost savings of a three-tier transportation schedule and increased walk-zone to reduce transportation costs further.

Recommendation

The Kansas City School Board evaluate a three-tier transportation schedule and increased walk-zone for potential cost savings.

Auditee's Response

The Kansas City School Board provided the following written response:

The Kansas City, Mo School District, after right-sizing, has two grade configurations for its schools: K-6 for Elementary and 7-12 for the High Schools. With this configuration, the District does not require a 3 tier bus schedule. The distance for walkers to the schools is less than the required 3.5 mile distance.

The District looks for every opportunity to find costs savings in transportation operations. However, Board of Directors and the District administration believe the safety and attendance of our children, not the cost of transportation, is our primary concern, and will determine the transportation schedule and ridership based on that priority. This district puts a high priority on improving attendance and reducing dropouts. Extending walk-zones is not a strategy that supports those efforts.

9. Financial Condition

As a result of the reductions made to expenditures in the general operating funds during the 2 year ended June 30, 2011, the district's financial condition has stabilized. As discussed in our previous audit report, No. 2010-109, *Kansas City 33 School District Financial Condition and Projections*, expenditures exceeded revenues (excluding other financing sources) in the operating funds for the years ended June 30, 2008, 2009, and 2010. As a result, the fund balance of the undesignated operating funds decreased from approximately \$74.3 million at July 1, 2006, to \$56.9 million at June 30, 2010. The fund balance is projected to be approximately \$57.7 million at June 30, 2011.



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

As detailed in our prior report, the declining financial condition resulted from several factors, including but not limited to, decreased funding from the state, declining student population, declining property valuations, and increased enrollment in charter schools in the Kansas City area. As discussed in this report, there are several areas in which expenditures could have been reduced sooner to help improve the district's financial condition.

The following table depicts actual fiscal year 2010 financial information per the financial statements, as well as 2011 and 2012 budget information:

| Operating Funds | 2010 Actual | 2011 Budget | 2012 Budget |
|--------------------------------|---------------|-------------|-------------|
| Beginning Balance | \$ 57,260,601 | 56,958,379 | 54,121,196 |
| Revenues | 284,841,558 | 258,072,165 | 220,905,818 |
| Expenditures | 269,916,955 | 260,600,342 | 223,420,021 |
| Other financing sources (uses) | (15,226,825) | 3,227,033 | 2,746,400 |
| Ending Balance | \$ 56,958,379 | 57,657,235 | 54,353,393 |

The \$9.3 million net reduction from 2010 actual expenditures to 2011 budgeted expenditures has resulted from numerous actions taken by district management including closing schools, canceling and/or renegotiating \$30 million in district contracts, and the elimination of 900 full-time equivalent positions.

The district has projected revenues in 2012 of approximately \$220.9 million, a decrease of about \$37.1 million from 2011. The district is expecting a decrease of \$3.5 million in local taxes, \$13.6 million in state funding cuts, and \$19.7 million in federal funding cuts (including ARRA funding of \$18.9 million). In order to balance the budget, the district is planning to cut \$17.1 million from the district's operating funds and \$1 million in child nutrition services. The reductions will be achieved through various cost saving measures including eliminating approximately 346 positions, cutting 10 percent from most departments, and canceling and/or renegotiating more contracts.

Recommendation

The Kansas City School Board continue to monitor the district's financial condition and take appropriate action as necessary.

Auditee's Response

The Kansas City School Board provided the following written response:

The district's FY11 amended budget projects an ending fund balance of \$58.4 million, an increase of \$1.44 million or 2.5% over FY10. On May 18, 2011, the board of directors adopted the FY12 expenditure budget funded with current year revenues, not requiring use of fund balance. This was accomplished by reducing full time equivalent positions by 345.97 and



Kansas City 33 School District
Management Advisory Report - State Auditor's Findings

reducing expenditures by \$37.18 million when compared to the FY11 budget.

Kansas City 33 School District

Organization and Statistical Information

The Kansas City 33 School District is located within the corporate limits of Kansas City, Missouri.

The district operates 7 high schools (grades 7 through 12), a vocational school, an early childhood center, and 27 elementary/middle schools (grades Pre-Kindergarten through 6). Enrollment was 17,524 for the 2010-2011 school year. The district employed approximately 3,010 full- and part-time employees at June 30, 2010.

At June 30, 2010, the Kansas City 33 School District was classified under the Missouri School Improvement Program (MSIP) as "Provisionally Accredited" by the Missouri Department of Elementary and Secondary Education. A provisionally accredited district has not met enough of the MSIP standards and indicators to be accredited.

School Board

An elected board acts as the policy-making body for the district's operations. The board's nine members serve 4-year terms without compensation. Members of the board at June 30, 2010, were:

Airick L. West, President
Derek Richey, Vice President
Arthur A Benson, Member
Kyleen Carroll, Member
Joseph Jackson, Member
Duane B. Kelly, Member
Crispin Rea, Jr., Member
Marilyn Y. Simmons, Member
Ray Wilson, Member

Superintendent

The district's superintendent at June 30, 2010, was Dr. John W. Covington and his annual compensation was \$280,483 which consists of a base salary of \$250,000; supplemental insurance (life, disability, and other) of \$15,000; car allowance of \$9,600; and the value of health, dental, and vision benefits which totaled \$5,883 in fiscal year 2010. The superintendent's compensation is established by the board.

American Recovery and Reinvestment Act of 2009 (Federal Stimulus)

According to district personnel, the district was awarded the following American Recovery and Reinvestment Act of 2009 funding:

A Title I Grant to Local Education Agencies was awarded by the U.S. Department of Education to the state of Missouri Department of Elementary and Secondary Education (DESE). Through this grant, the DESE awarded the district \$8,598,741 of which, \$4,136,291 was received during the year ended June 30, 2010. The district expended \$4,768,621 during the year ended June 30, 2010, to assist with salaries and fringe benefits for 83 supplemental teachers, paraprofessionals, instructional coaches, after school tutoring, and student targeted instructional materials and technology.



Kansas City 33 School District
Organization and Statistical Information

A Title I, Part D Grant to Local Education Agencies was awarded by the U.S. Department of Education to the DESE. Through this grant, the state of Missouri DESE awarded the district \$79,554 of which, \$4,962 was received during the year ended June 30, 2010. The district expended \$2,003 during the year ended June 30, 2010, for two teachers, a paraprofessional, and classroom supplies.

Special Education Grants to States were awarded by the U.S. Department of Education to the DESE and \$5,785,160 was awarded to the district of which, \$2,538,232 was received during the year ended June 30, 2010. The district expended \$4,573,042 during the year ended June 30, 2010, to pay for salaries and fringe benefits for 19 full time certified and classified classroom positions, a part-time nurse, and an administrator; professional development; and assistive technologies and computer equipment, supplies, and instructional materials.

An Early Childhood Special Education Grant was awarded by the U.S. Department of Education to the DESE and \$178,094 was awarded to the district of which, \$6,320 was received and \$33,408 was expended during the year ended June 30, 2010, for contracted specialized educational services.

State Fiscal Stabilization Fund (SFSF) - Education State Grants were awarded by the U.S. Department of Education to the DESE and \$17,572,996 was awarded to the district. The district received and expended \$16,435,592 during the year ended June 30, 2010, for 262 certified staff salary and fringe benefits, a stipend for certified staff voluntarily participating in professional development, and transportation of students to and from school by bus for a portion of a month.

An Education Technology State Grant was awarded to the DESE by the U.S. Department of Education and \$239,940 was awarded to the district. The district received \$209,364 and expended \$179,308 for salaries and fringe benefits for three resource teachers to provide education technology support to teachers and administrators.

A Head Start Grant was awarded by the U.S. Department of Health and Human Services to the Mid America Regional Council and \$216,371 was awarded to the district of which no monies were received and \$18,657 was expended during the year ended June 30, 2010, for playground equipment, classroom furniture, and supplies.

An Education for Homeless Children and Youth Grant to Local Education Agencies was awarded by the U.S. Department of Education to the DESE. Through this grant, the DESE awarded the district \$109,066. The district did not receive or expend any of these funds during the year ended June 30, 2010.