



Thomas A. Schweich  
Missouri State Auditor

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# FOLLOW-UP REPORT ON AUDIT FINDINGS

## Kansas City 33 School District

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August 2012

Report No. 2012-81



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<http://auditor.mo.gov>

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# Kansas City 33 School District

## Follow-Up Report on Audit Findings

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\*Includes selected findings



# THOMAS A. SCHWEICH

## Missouri State Auditor

To the Board of Education  
Kansas City 33 School District

We have conducted follow-up work on certain audit report findings contained in Report No. 2011-82, *Kansas City 33 School District*, issued in October 2011, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the district about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
  - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
  - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
  - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
  - Not Implemented: Auditee has not implemented the recommendation and indicates that it will not do so.

Our methodology included working with the district, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we reviewed documentation provided by the district and held discussions with district personnel. Documentation included copies of contracts; bid documentation; purchasing policies and procedures; vendor selection and contract assessment reports issued by the district's independent CPA; board minutes; and inventory reports. This report is a summary of the results of this follow-up work, which was substantially completed during March and April 2012.

A handwritten signature in black ink that reads "Thomas A. Schweich".

Thomas A. Schweich  
State Auditor

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# Kansas City 33 School District

## Follow-Up Report on Prior Audit Findings

### Status of Findings

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1. Service Contracts      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.

1.1 Requests for proposals      The district awarded numerous service contracts without soliciting proposals or clearly documenting why proposals were not sought. In addition, the district had not performed cost analyses to determine the most cost beneficial method of providing some services.

**Recommendation**      The Kansas City School Board 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.

**Status**      **In progress**

The Purchasing Department recently implemented policies and procedures to ensure proposals are solicited for the purchase of applicable goods and services and to ensure adequate documentation is maintained to support the evaluation and selection process. In addition, the district implemented policies and procedures in January 2012 to address emergency purchase situations and sole source vendors, and to confirm "no-bid" responses from vendors. We were unable to determine if the district is currently performing cost analyses to determine the most cost beneficial method of providing some services as we noted no contracts requiring such a review were entered into during fiscal years 2011 and 2012.

District procurement services procedures require the purchase of all goods and services be reviewed by the Procurement and Contract (P&C) Committee. The P&C Committee consists of members of the Purchasing Department and Legal Services Department. The P&C Committee reviews initial specifications, assists in determining the mode of solicitation (IFB (Invitation For Bid) or RFP (Request For Proposals)), and decides whether a service agreement is needed. A Procurement and Contract Informational Form must be completed and submitted to the P&C Committee. The form includes a description of the goods/services, an estimate of the cost, and the vendor's information. Competitive quotes and bid solicitation are then performed in accordance with written procedures. Upon completion of the solicitation process, the P&C Committee Informational Form is signed by the Purchasing Manager and a member of Legal Services, before it is submitted to the Superintendent for approval. The new procedures require the creation of a fiscal note summarizing the cost of the contract, which is not prepared until documentation of bidding has been reviewed. A contract



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cannot be added to the Board of Education's agenda for approval without a fiscal note.

The improvements to the district's procurement services procedures are the result of a review of contracts and department policies and procedures by the current Purchasing Manager (hired in October 2011) and the current Chief Financial Officer (hired in November 2011), and findings and recommendations by the district's independent auditors related to contract reviews.

- As a result of an investigation by the news media, the district's independent auditor reviewed the selection and contract assessment for Project 360. The RFP for Project 360 solicited construction management services for refurbishment work on district buildings in need. The refurbishment project was estimated to cost \$50 million to \$55 million. The news media reported an unpaid adviser early in the process later founded his own construction services company and was awarded the contract to serve as construction manager for Project 360; giving the appearance of a conflict of interest. As a result, the district contracted with its independent auditor to review the selection of the construction manager. The independent audit found that no employee acted fraudulently or intentionally to inappropriately impact the selection process in favor of any supplier. However, it did find significant issues including: 1) the procurement department was not effectively involved in the RFP development and evaluation; 2) the rationale for selecting the vendor was not clearly documented by the selection team; 3) the selection team did not vet the proposer's relative financial strength and did not check any of the proposer's references; and 4) confidentiality agreements were not in place with external consultants, and return of proposals and other related documents were not requested by the district from the consultants.
- The district entered into a contract in December 2011 for \$150,000 to assess the technology department and provide best practice recommendations to the district, and review the district's compliance with the federal e-rate technology discount program. At the time of the review, the district purchasing policy did not require a bid process for professional services, and as such, no bid process was conducted for the services under this contract, and only one vendor was contacted for these services. In addition, a personal relationship existed between the supplier and a district employee, but the district does not have a policy outlining the procedures to avoid potential conflicts of interest.
- The district entered into contracts with a vendor in November 2011 for \$419,000 to replace the boiler at the board of education building and in March 2011 for \$117,000 to install security cameras at Southwest High



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School. No proposals were solicited as the purchases were deemed emergencies by the Superintendent and only one vendor was contacted. At the time of these services, the district did not have a policy or procedures in place to address emergency purchase situations. In January 2012, the district implemented procedures for emergency purchases and now requires the completion of an emergency purchase justification form that must be approved by the head of the department and the Superintendent prior to making the purchase or entering into the contract. In addition, a personal relationship existed between the supplier and a district employee, but the district does not have a policy outlining the procedures to avoid potential conflicts of interest.

- In June 2011, the district entered into a contract with the same vendor discussed in the previous bullet for \$840,611 to install security cameras at the remaining high schools. An IFB was advertised in three local newspapers and the district's e-bidding system. The IFB did not include sufficient details regarding bidder licensing and certification requirements. As a result, three bidders, including the lowest bidder, may have been inappropriately eliminated. The district did not evaluate the possibility of reissuing the IFB after the majority of the bidders were eliminated.

We reviewed several contracts entered into during the year ended June 30, 2012, and had concerns related to district procedures for entering into contracts based on "piggy back" agreements. These are contracts where the vendor is selected based on governmental agency or cooperative procurement program contracts with other entities. The district did not ensure these agreements were competitively bid by the governmental agency/cooperative procurement program which originally contracted with the vendor. The district has indicated these "piggy back" agreements will be competitively bid in the future or documentation of competitive bidding will be obtained from the entity which originally contracted with the vendor.

## 1.2 Contract 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.

## Recommendation

The Kansas City School Board ensure service contracts include appropriate criteria which provide a means to monitor contractor performance and ensure each contract is monitored properly.

## Status

### **Not implemented**

The district is still not ensuring some service contracts include appropriate criteria to monitor contractor performance. During the district's fiscal year 2011 audit, the district's independent auditor noted an adequate process and



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controls are not in place to monitor vendors funded with Title I, Part A funds.

### 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.

### Recommendation

The Kansas City School Board 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.

### Status

#### **Implemented**

We selected several contracts issued during 2012 and 2011 and determined all were signed by the necessary parties prior to the effective date of the contract. Some contracts we reviewed had amendments which appeared to document the changes and were properly signed.

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## 3. Capital Assets and Surplus Property

An excessive amount of surplus property was kept in storage and was not adequately tracked. The district maintained 38 closed schools, and significant costs were incurred to maintain those schools. Controls and procedures over the annual inventory process for district-wide capital assets needed improvement, and leases for assets were not reviewed adequately.

### 3.1 Surplus property

The district maintained excessive amounts of obsolete, surplus property at a former school building. The property was stored in an unorganized manner, making it difficult to tell what was available for use. In addition, the district did not maintain a list of surplus property not capitalized.

The district began disposing of some surplus property in February 2011, through the use of online auctions. Prior to that time, the district had not had a surplus property auction since 2005.

### Recommendation

The Kansas City School Board 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.

### Status

#### **In progress**

The district has taken steps to dispose of unusable items. Between March 2011 and April 2012, the district sold 1,001 items through the City of Kansas City, Missouri, Procurement Services Division. Net cash proceeds from the sale of the items totaled \$122,925.

The district is in the process of preparing an inventory of surplus property. All surplus property has been moved to a more suitable district building for



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storage and disposal and will be inventoried by the end of fiscal year 2012. After the inventory, a list of surplus property will be available.

### 3.2 Unused buildings

The district maintained a large number of unused buildings and paid a significant amount for utilities for these closed buildings. At June 30, 2010, the district had 38 closed schools. Eight closed buildings were retained for future district use and the other 30 were under evaluation to determine their potential for alternative uses.

#### Recommendation

The Kansas City School Board continue efforts to identify alternative uses for surplus real estate properties and sell the properties which cannot be utilized for another purpose.

#### Status

##### **Implemented**

The district has continued its efforts to identify alternative uses for surplus real estate properties and sell the properties which cannot be utilized for another purpose. 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. The status of the 30 properties are as follows:

- Two properties have been sold.
- Sales for six properties have been approved by the KCMSD Building Corporation.
- Proposals for the reuse or sale of seven properties have been received and are being reviewed.
- The district is accepting proposals for the reuse or sale of one property through a real estate broker.
- No proposals were received for one property listed for sale. A proposal was received for another property listed for sale. The proposal was not from a not for profit entity, which is required by law. The district is currently accepting proposals on these properties on a first come, first serve basis.
- Proposals for the reuse or sale of the remaining 12 properties will be sought later in 2012.

### 3.3 Inventory

Property movement procedures were not followed and as a result, the capital asset list was inaccurate and a large number of assets could not be accounted for during the annual inventory. In addition, the annual inventory was not completed in a timely manner.



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The annual physical inventory for fiscal year 2010 was performed at 58 district buildings, included 56,600 items, and took 8 months to complete. A vendor performed the inventories at 36 locations within approximately 2 months each, while the remaining locations inventoried by district personnel took about 5 months to complete. The results of the physical inventory indicated 4,420 items (8 percent), valued at \$2.6 million were not located.

## Recommendation

The Kansas City School Board 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.

## Status

### **In progress**

The District Asset Manager indicated all locations would be inventoried by the vendor for the 2012 annual physical inventory. In addition, the district increased the capitalization amount from \$300 to \$1,000. As a result, the number of a new assets being tagged and inventoried has decreased. The 2012 inventory should be completed in a more timely manner as a result of these changes.

The district indicated additional controls and procedures have been established to safeguard assets highly susceptible to loss and/or theft, such as laptop computers. Through April 2012, the district has recovered six stolen computers by utilizing a tracking mechanism located within the computers. The district plans to continue to use these tracking devices in the future.

District controls and procedures over the movement of district property from one district building to another have not been improved. However, district personnel indicated they plan to improve these procedures in the future.

## 3.4 Leased copiers

Leased assets were not controlled and accounted for properly. Our review of the leased copier listing indicated 14 copiers were located at five closed schools. At our request, the district located these 14 copiers and found three copiers had been moved to another school, but the remaining 11 were in storage or at a closed school. The district was incurring expenditures for the unused copiers.

## Recommendation

The Kansas City School Board 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.



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**Status**

**Implemented**

The district no longer leases copiers. Instead, the district purchases copiers and they are included in the annual physical inventory of capital assets.