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Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

The School District of Springfield, R-XII

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The School District of Springfield, R-XII

Follow-Up Report on Audit Findings

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*Includes selected findings



THOMAS A. SCHWEICH

Missouri State Auditor

To the Board of Education
The School District of Springfield, R-XII

We have conducted follow-up work on certain audit report findings contained in Report No. 2012-16, *The School District of Springfield, R-XII*, issued in March 2012, 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 reports summarizing the status of our recommendations and supporting documentation submitted by district officials. We also held a meeting with district officials to seek clarification and review additional documentation. Documentation provided by district officials included copies of budgets, financial reports, meeting minutes, contracts, new policies and procedures, and various accounting records. This report is a summary of the results of this follow-up work, which was substantially completed during July 2012.

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

Thomas A. Schweich
State Auditor

The School District of Springfield, R-XII

Follow-Up Report on Prior Audit Findings

Status of Findings

1. **Health Benefit Trust
Fund Financial
Condition**

The Health Benefit Trust (HBT) Fund was in poor financial condition because the district did not adequately fund and monitor the operating costs of its self-funded health plans or programs. Total estimated liabilities of the HBT Fund exceeded total assets by approximately \$3.3 million as of June 30, 2011, and our projections indicated a subsidy of the HBT Fund with other district funds may be required as early as September 2013. In addition, total assets and the amount necessary to cover the estimated liabilities for unpaid claims (the reserve balance) had significantly deteriorated from fiscal year 2009 to 2011.

HBT Fund financial statements were reviewed and approved by the School Board each month; however, these reports were not always accurate. The amount reported on the financial statements as an estimated liability for unpaid claims had not been periodically updated to reflect current conditions and the same amount had been presented on the statements since July 2008. The district also had not established a minimum reserve balance (the amount of assets necessary to cover the estimated liability of unpaid claims) for the HBT Fund or procedures to monitor this balance and address any deficiencies. In addition, written comprehensive long-range plans for the HBT Fund had not been prepared.

Recommendation

The School Board closely monitor the financial condition and take the necessary steps to improve the financial condition of the HBT Fund.

Status

In Progress

Effective January 2012 all premium tiers (district and employee paid tiers) were increased resulting in an estimated \$3 million increase in annual revenues to the HBT Fund. Despite the premium tier changes, the HBT Fund asset balance has continued to decrease from \$4,089,567 at June 2011 to \$834,553 at May 2012. In addition, the reserve balance, after estimated liabilities for unpaid claims, has declined from a deficit of approximately \$4.5 million at June 2011 to a deficit of approximately \$8.4 million at May 2012.

As a result of the continued decline of the HBT Fund financial condition, the district budgeted additional district premiums of \$2 million to be paid to the HBT Fund during the 2012-2013 fiscal year. The estimated liability for unpaid claims is updated on a monthly basis.

The district has developed an 18 month projection for the HBT Fund and indicated it will maintain the projection in the future. The latest projection, indicates the HBT Fund will have an asset balance of \$643,862 in December 2013. The projection also indicates the asset balance of the HBT Fund will be at its lowest in September 2012 with a negative \$467,413 balance, which according to district officials will require temporary funding of the HBT



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Fund with district operating funds. The district was unable to provide projected reserve balances at September 2012 or December 2013.

The district indicated the current condition of the HBT Fund will be presented as an information item to the Board on a quarterly basis, and district officials will develop and have the Board approve a policy identifying a minimum reserve amount for the HBT Fund.

2.1 Cash Receipts
Segregation of Duties

The duties of receiving, recording, and depositing monies by several different district offices and schools were not adequately segregated, and a documented supervisory review of the accounting records was not performed.

Recommendation

The School Board segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.

Status

In Progress

The district has developed new procedures for cash handling at athletic events, concessions, and fund raisers that address training, segregation of duties, chain of custody, and a close out process.

The district indicated it will consider cost beneficial measures that could be applied to address segregation of responsibilities at the schools. The district also indicated it is in the process of changing procedures for the receipt of cash and checks in the financial office. All monies received by the finance office will be delivered to the Finance Administrative Assistant, who will log all checks and cash prior to remitting to the Accounts Receivable Clerk. The district is in the process of hiring an Internal Auditor, and intends to make these logs available to the Internal Auditor for reconciliation purposes.

2.2 Security of Monies

Monies collected were not always maintained in a secure location. Additionally, according to district policy, student activity monies should never be kept in a teacher's classroom; however, we noted numerous instances where student activity monies were stored in unlocked desks and file cabinets in classrooms. In addition, checks and money orders received were not always restrictively endorsed immediately upon receipt.

Recommendation

The School Board maintain monies collected in a secure location, and restrictively endorse checks and money orders immediately upon receipt.

Status

In Progress

The district indicated safes will be made available at the high schools. The district will communicate and clarify existing cash-handling policies and procedures with staff, respond to any future infractions through appropriate



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disciplinary action, and communicate and clarify that all checks and money orders must be endorsed within 24 hours of receipt. The district is in the process of hiring an Internal Auditor to spot check compliance with existing policies.

2.3 Receipting and Ticket Procedures

Several offices or schools did not have adequate procedures in place to properly record and account for all payments received.

Recommendation

The School Board ensure adequate controls and procedures are in place in all district departments/schools to properly account for all monies received.

Status

In Progress

The district has updated event ticketing procedures which will be communicated with the appropriate staff with the start of the 2012-2013 school year. The district indicated it will communicate and clarify existing depositing and transmitting policies and procedures with staff and respond to any future infractions through appropriate disciplinary action. The district is in the process of hiring an Internal Auditor to spot check compliance with existing policies.

2.4 Depositing and Transmitting Procedures

Numerous instances were noted where receipts were not transmitted or deposited timely and intact. Receipts on hand were sometimes used to purchase supplies or reimburse for supplies purchased with a personal debit card; borrowed by employees; and used by employees to cash personal checks. Cash refunds were made from district receipts without adequate documentation. Some district receipts were handled by several employees before deposit, and there was not always adequate documentation to support the transmittal of monies from one employee to another.

Recommendation

The School Board deposit all monies intact and in a timely manner, issue checks for purchases and reimbursements, discontinue the practice of cashing personal checks, periodically reconcile amounts collected for concessions to changes in concession inventory, limit and document transmittals of monies between employees, and ensure all district policies are followed.

Status

In Progress

The district has developed new procedures for cash handling at athletic events, concessions, and fund raisers that address timely deposits. A chain of custody form has been developed.

The district indicated it will communicate and clarify new and existing depositing and transmitting policies and procedures with staff, respond to any future infractions through appropriate disciplinary action, and implement new procedures at the start of the 2012-13 school year. The



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district is in the process of hiring an Internal Auditor to spot check compliance with existing policies.

2.5 Student Activity Funds

Accounting controls and procedures over district student activity funds needed improvement. The district had a written policy for student activity funds, but the policy did not address the types of records which should be maintained and the accounting procedures to be followed by the sponsor of each student activity and fundraiser. Very little or no documentation was retained to support amounts collected by teachers/sponsors for some student activities, and transmittal forms prepared by the teachers/sponsors for the school financial secretary were not always retained.

Recommendation

The School Board amend the student activity policy to address the types of records to be maintained and procedures to be followed by the sponsor/teacher of each student activity.

Status

Implemented

The district has updated the student activity practices and procedures to address this matter.

The district indicated it will communicate and clarify new and existing depositing and transmitting policies and procedures with staff and respond to any future infractions through appropriate disciplinary action. The district is in the process of hiring an Internal Auditor to spot check compliance with existing policies.

2.8 Change Funds

The district did not have a list of approved change funds and the authorized balances or a written policy regarding these change funds. Some change funds were not maintained at a constant amount, and some schools regularly held monies out of district receipts to make change. In addition, adequate documentation of change funds given to/returned by district personnel for sporting events or student activities was not maintained.

Recommendation

The School Board establish written procedures governing the accounting for change funds. Also, the School Board should maintain a list of each change fund and the authorized balance of each fund. In addition, the School Board should ensure the change funds are periodically counted and reconciled to the authorized balance by an independent person.

Status

In Progress

The district has prepared a list of authorized change funds, revolving funds and petty cash funds. The district indicated the finance office will remind site secretaries and administrators that any other petty cash/change funds are not authorized. The need for additional petty cash/change funds not



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currently authorized will be considered by the finance office and a decision made to either add the fund to the authorized list or discontinue its use. The district plans to have the internal audit position perform periodic reconciliations of the authorized list and petty cash/change funds. The district has developed new procedures for cash handling at athletic events, concessions and fund raisers that address the use, custody and reconciliation of change funds.

The district indicated use of change funds not on the authorized list will be discontinued with the start of the 2012-2013 school year, further use of unauthorized change funds will result in appropriate disciplinary action, and new and existing change fund procedures will be communicated and clarified with staff.

2.10 Centralized Collection Points

The district had numerous cash collection points throughout various administrative offices and schools.

Recommendation

The School Board ensure adequate controls and records are in place in all district offices and schools to properly account for all monies received, and consider establishing centralized collections points.

Status

Partially Implemented

The district has developed new procedures for cash handling which address timely processing of cash (endorsements and deposits), as well as chain of custody. The district does not plan on establishing centralized collection points.

3.1 Financing

The district sold general obligation bonds and lease participation certificates through a negotiated sale instead of a competitive sale, and the district's bond underwriter also acted as the district's financial advisor.

Recommendation

The School Board pursue open competition in any future bond or certificate sales, and discontinue using an underwriter who also acts in a dual capacity as financial advisor.

Status

In Progress

No bond or certificate sales have occurred since the audit report was released; however, the district indicated for future bond or certificate sales its Cash and Investments Manager and Finance Director will serve as the financial advisors and will also determine whether a negotiated sale or competitive sale is preferred.

3.4 Prevailing Wage

The district had not established procedures to adequately monitor contractors to ensure prevailing wages are paid. Payroll information was not



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always received by the district or was not always adequately detailed to ensure prevailing wages were paid in accordance with state law. Additionally, we noted an instance in which prevailing wage was not paid.

Recommendation

The School Board establish policies and procedures to ensure prevailing wage rates are paid on all required projects including adequate supporting documentation to substantiate rates paid.

Status

In Progress

The district indicated procedures have been developed to randomly spot check pay applications to determine that prevailing wages have been properly paid. Documentation of the testing will be maintained by the district.

**4.1 Sale of Old Hickory
Hills School Property**

The district entered into multiple agreements to sell district property to a buyer who failed to make the required payments and meet other contractual obligations. Despite the buyer's failure to make required payments and meet other contractual obligations, the district entered into a revised real estate agreement and two amendments to that agreement to extend the buyer's obligations to later dates. The latest real estate agreement provided for the district to finance a portion of the purchase price. In addition, the district failed to have the property reappraised to both ensure and document it received a reasonable price.

Recommendation

The School Board reevaluate current arrangements and options, ensure compliance with agreements, and consider not entering into such agreements in the future where the buyer does not have financing in place.

Status

Partially Implemented

The district indicated there was no other buyer available, and in April 2012, the district entered into another amendment agreement with the buyer, extending all contract requirements an additional 5 months. The agreement requires the buyer to make monthly non-refundable payments of \$12,500 and does not allow these payments to be applied to the cash payment now due in September 2012.

5.1 Professional Services

The district did not solicit requests for proposals for several professional services including legal services, HBT Fund consulting services, and transportation consulting services to ensure it received quality services at a fair price.

Recommendation

The School Board solicit proposals for professional services, enter into written agreements for professional services, renew contracts to extend the terms, and ensure compliance with contract terms.



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Status

Partially Implemented

The district indicated these are professional services and there are no requirements to bid these services. However, the district obtained a written agreement with its attorney for legal services, and indicated the agreement will be renewed on an annual basis. The HBT Fund consulting contract will be renewed no later than September 1, 2012, and the contract terms will be modified to include the duties currently performed by the consultant. The district indicated the transportation consulting services are no longer used; however, should the need arise in the future, the district plans to develop a request for proposal and bid out the service.

8.1 Employment Contracts and Stipends

The district did not have formal written employment contracts with staff reporting directly to the Superintendent, and it was unclear why the Chief Financial Officer and Human Resources Department Director received stipends for additional responsibilities already included in their job descriptions. In addition, the district had not established adequate policies and procedures regarding stipends, and adequate documentation of the stipend amounts paid for additional responsibilities was not always retained. A letter of appointment was typically executed between the district and the employee for the stipend; however, it did not always clearly indicate the amount to be paid.

Recommendation

The School Board enter into formal written employment contracts with employees, when applicable. The School Board should also establish adequate policies and procedures to address stipends. The policy should require extra duty contracts be prepared, which specify the stipend amount and duties to be performed.

Status

In Progress

All staff reporting directly to the Superintendent now have written employment contracts effective with the 2012-2013 school year, and stipends with these staff members have been discontinued.

The district indicated it is changing the process related to the issuance of letters of appointment. These letters will now be issued by human resources department staff in the central office, rather than site based clerical staff. The letters will outline specific dollar amounts of the stipends.

9.2 Payroll Segregation of Duties

Payroll duties of the payroll clerk for the transportation department and a benefits representative in the Human Resources Department were not adequately segregated.

Recommendation

The School Board segregate payroll duties to the extent possible and implement appropriate reviews and monitoring procedures.



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Status

In Progress

The district is working to develop a report that will identify any payroll changes (hours, rates, leave, etc.). This report will be reviewed by a transportation supervisor and the payroll department. The district indicated all swipe cards are now made at a central location. The transportation information technology position now adjusts and sets the bus routes. Individual departments now enter their own absences. The human resources department administrative assistant enters the human resources department employee absences. The benefits representative compares the entered absences to documentation of the absences. A human resources department supervisor reviews any absence changes.

9.3 Substitute Services

The district had not established adequate procedures to reconcile amounts paid to services provided by the substitute services vendor. In addition, a comparison was not completed between the vendor-provided report of absences and employee leave records maintained by the district to ensure leave was properly charged.

Recommendation

The School Board establish adequate reconciliation procedures to verify the propriety of substitute services vendor billings and ensure the accuracy of employee leave records.

Status

In Progress

The district indicated it will review reports of substitutes that are system approved, rather than approved by the school/department. When a school/department consistently fails to approve substitutes, the Human Resources Department will contact the school/department to ensure compliance. The district will select random line items on the substitute services invoice for audit to ensure accuracy between absences filled and substitutes billed. The district will select random line items on the vendor provided report of absences for comparison to employee leave records.

9.4 Related Employees

A list of related employees was not maintained and monitored by the HR department, and the district had not established adequate policies and procedures related to the hiring, supervising, or tracking of related employees.

Recommendation

The School Board establish policies and procedures to identify and monitor related employees.



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Status

In Progress

The district indicated it plans to research policies of other districts/entities regarding related employees and should have a policy in place during the 2012-2013 school year.

12.1 Closed Meetings

Notices of the date, time, and agenda of some closed meetings were not published or publicly posted, and the district did not always hold open meetings prior to closed meetings. The School Board approved a list of reasons for closing the meeting in the open meeting, but only discussed some of these topics in the closed meeting. In addition, meeting minutes were not always sufficient to demonstrate how some issues discussed in closed meetings were allowable. The results of roll call votes for decisions made in closed meetings were not always documented in meeting minutes.

Recommendation

The School Board ensure advance notice of meetings is given and open meetings are held to properly enter into closed meetings. The School Board should also cite specific reasons for going into closed meetings only for topics it plans to discuss, and ensure only allowable topics are discussed in closed meetings and roll call votes are taken and documented.

Status

Implemented

The district is now complying with the posting of notices for closed meetings. Also, open meetings are held prior to the closed meetings, and the district cites only those topics it intends to discuss in the closed meeting. More detailed minutes are maintained and all roll call votes are documented.

12.2 School Board Retreats

District business was sometimes conducted outside of regular open meetings at school board retreats, and minutes for some of these meetings were not prepared.

Recommendation

The School Board ensure district business is conducted in compliance with the Sunshine Law, and meeting minutes are maintained.

Status

Implemented

The district now prepares minutes for all meetings, open and closed.

13. School Safety

Required volunteer registration forms and background checks were not always completed/performed for volunteers. In addition, the district did not have policies and procedures to determine when to require background checks for vendors or contractors whose employees may have contact with students.



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Recommendation

The School Board ensure compliance with policies and procedures regarding volunteer registration and background checks, and also consider requiring vendors and contractors to provide background checks for their employees who have contact with students.

Status

In Progress

The district indicated it will communicate and clarify existing policies and procedures with staff, respond to any future infractions through appropriate disciplinary action, and develop a policy that addresses background checks for vendors and contractors. The policy will define vendors and contractors and include a requirement that vendors and contractors be contractually obligated to perform background checks on all employees who might have contact with students. The district is in the process of hiring an Internal Auditor to spot check compliance with existing policies.

14. **Internal Audit
Function**

The district did not have an internal audit function, many recommendations made by the former internal auditor had not been followed up or resolved, and the former internal auditor did not report directly to the School Board.

Recommendation

The School Board consider appointing an internal auditor to conduct audits of district operations and activities. An internal auditor should report directly to the School Board.

Status

In Progress

The Internal Auditor position has been posted and first interviews conducted. The district indicated it will hire an Internal Auditor and have the auditor present findings directly to the Board.