



ST. CHARLES R-VI SCHOOL DISTRICT

ST. CHARLES COUNTY, MISSOURI

YEAR ENDED JUNE 30, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-41
June 28, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

The following findings are a result of an audit conducted by our office in response to the request of petitioners from the St. Charles R-VI School District, in St. Charles County, Missouri. The Yellow Sheet points out those findings the state auditor found particularly noteworthy.

During the last five years, the district has experienced growth in the revenues and expenditures of its operating funds. Despite the growth in district revenues, the district has spent more than it received three out of the last five years resulting in a decline of ending balances in its operating funds.

During the two years ended June 30, 1998, the district was designated “Financially Stressed” by the Missouri Department of Elementary and Secondary Education (DESE). *“Financially Stressed” means the district’s operating fund balances are below three percent of the expenditures in its operating funds.*

Prior to the 1998-99 school year, the district entered into agreements with the teachers, administrators, and support staff that required the school district to distribute as supplemental payments to all three groups any “excess balances” in excess of five percent in the operating funds at the end of the year. The district distributed approximately \$667,000 in September 1995 for “excess balances” accumulated during the 1994-95 school year. The restrictive agreements prevented the district from accumulating reserves in excess of five percent in the operating funds.

By maintaining such small ending balances in the operating funds, the district severely limited its ability to handle any unexpected shortfalls in revenue or unforeseen expense. To ensure the district resources are adequate, the district should develop adequate reserves and review any restrictive agreements that limit the district’s operating balances.

The district did a poor job budgeting and monitoring its financial position for the 1996-97 school year. The district has done a better job monitoring its financial position beginning with the 1997-98 school year and utilizing the budget document as a tool to monitor and control district finances. Financial reports currently identify the district’s financial position and any significant changes that are reflected in board approved budget adjustments. **The approved 1998-99 budget projects balances in operating funds will be sufficient to remove the district from being categorized as “Financially Stressed”.**

Although improvement has been noted, the district continues to have some problems documenting approval of all change orders and work orders to its construction projects. The district has an informal policy stating board approval is necessary for all change orders and work orders.

YELLOW SHEET

(over)

The written policy allows the Superintendent to approve any change orders or work orders not exceeding \$25,000 with a report to follow at the next scheduled board meeting. During our review, we noted four change orders and work orders, totaling \$61,800, which had not been approved by the school board. Three of the orders had been approved by the Superintendent; however, there was no board approval as required by district policy.

The district hired a firm to serve as both the architect and construction manager for all of its construction projects. This situation did not allow for an independent review of designs.

Bids were not obtained or bid documentation was not kept for several of the district's purchases, including its transportation contract, the finishing work of the district's building trade house, and the lease of modular units used for temporary classrooms.

In regard to the modular units, had the district lease-purchased or purchased the units, the district could have saved between \$181,000 and \$203,000 on one lease and approximately \$185,000 on a second lease.

Our review of the district also found that the administrators' salary schedule is not utilized by the district. Improvements are needed for procedures dealing with the distribution of intent letters to teachers, and documentation of employee termination records.

About the District:

The district operates two high schools (9-12), two middle schools (6-8), and seven elementary schools (K-5), an area vocational technical school, an administrative/adult education-customized training center, maintenance and receiving center and a building for an "at-risk" program. Enrollment was approximately 6,620 for the 1997-98 school year. The district employees approximately 716 full and part-time employees, including 25 administrators, 470 teachers, and 221 support staff.

ST. CHARLES R-VI SCHOOL DISTRICT

ST. CHARLES COUNTY, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Education
St. Charles R-VI School District
St. Charles County, MO 63303

The State Auditor was petitioned under Section 29.230, RSMo, to audit the St. Charles R-VI School District. The school board had engaged Wade, Stables, Schanbacher and Walker, P.C., Certified Public Accountants (CPAs), to perform an audit of the district for the year ended June 30, 1998. To minimize any duplication of effort, we reviewed the report and substantiating workpapers of the CPA. Our audit of the school district included, but was not limited to, the year ended June 30, 1998. The objectives of this audit were to:

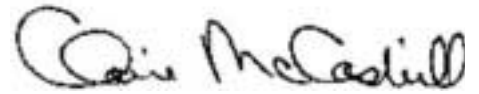
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, school district policies, and various school district financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization and Appendices are presented for informational purposes. This information was obtained from the district and its audited financial reports and was not subjected to auditing procedures applied during our audit of the district.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the St. Charles R-VI School District.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

February 18, 1999

HISTORY AND ORGANIZATION

ST. CHARLES R-VI SCHOOL DISTRICT
ST. CHARLES COUNTY, MISSOURI
HISTORY AND ORGANIZATION

The St. Charles R-VI School District is located in northeast St. Charles County and covers approximately 17 square miles.

The district operates two high schools (9-12), two middle schools (6-8), and seven elementary schools (K-5), an area vocational technical school, an administrative/adult education-customized training center, maintenance and receiving center and a building for an “at-risk” program. Enrollment was approximately 6,620 for the 1997-98 school year. The district employs approximately 716 full and part-time employees, including 25 administrators, 470 teachers, and 221 support staff.

St. Charles R-VI School District has been classified under the Missouri School Improvement Program as “Accredited” by the Missouri Department of Elementary and Secondary Education.

A seven-member Board elected for three-year terms, serves without compensation as the policy-making body for the district's operations. Members of the Board at June 30, 1998 and their current terms of office are:

<u>Name and Position</u>	<u>Current Term Expires</u>
Dr. Wayne Oetting, President (1)	April 1999
Dennis Black, Vice President (2)	April 2001
Jerry Reese, Secretary (1)	April 1999
Diane Rallo, Treasurer	April 2000
Marta Baier, Member (3)	April 1999
Jan Beardsley, Member (4)	April 2001
Brian Bredensteiner, Member	April 2000
	<u>Annual Compensation</u>
<u>Other Principal Officials</u>	
Dr. Terry Holder, Superintendent	\$ 105,000 (5)
Dr. Ed Musgrove, Assistant Superintendent of Human Resources/Building and Grounds	83,000
Wayne Brower, Assistant Superintendent of Business	72,500
Dr. John Urkevich, Assistant Superintendent of Curriculum	79,847
Dr. Roberta Brennan, Director of Student Services	69,198

- (1) Re-elected in April 1999 to another three-year term.
- (2) Dennis Black was elected Board President after the April 1999 election.
- (3) Dennis Hahn was elected to the board in April 1999, replacing Marta Baier.
- (4) Elected to the board in April 1998, replacing Jean Meyer. Jan Beardsley was elected Board Vice President after the April 1999 election.
- (5) The Superintendent also received a \$9,500 annuity.

Assessed valuation and tax rate information for the school district were as follows:

	<u>1998</u>	<u>1997</u>
Assessed Valuation	\$551,904,343	\$497,101,899
Tax Rate	4.01	4.06

MANAGEMENT ADVISORY REPORT

ST. CHARLES R-VI SCHOOL DISTRICT
ST. CHARLES COUNTY, MISSOURI
SUMMARY OF FINDINGS

1. Financial Condition (pages 10-12)

The district has experienced a decline in the financial condition of its operating funds (General Fund and Special Revenue Fund) and has been designated a “Financially Stressed” school district by the Department of Elementary and Secondary Education for the two years ended June 30, 1998.

2. Construction Projects (pages 12-14)

Although improvement has been noted, the district continues to have some problems documenting approval of all change orders and work orders to its construction projects. In addition, the district did not retain bid documentation at the district on the construction projects.

3. Architect and Construction Manager (pages 14-15)

The district hired a firm to serve as both the architectural firm and construction management firm. This situation did not allow for an independent review of the design. In addition, the district entered into a contract with the firm that required all payments to be made through the construction management firm, instead of directly to the contractors providing the actual construction work.

4. Expenditures (pages 15-18)

Bids were not obtained or bid documentation retained for several of the district's purchases, including the transportation contract, the lease of the modular units, and finishing work of the district's building trade house. Written agreements were not obtained for some professional services. Supporting documentation was not adequate for some expenditures.

5. Budgeting Procedures (pages 18-20)

The district overspent its approved budget amounts in various funds during the last several years. The district's budget for the year ended June 30, 1997, did not present an accurate estimate for the financial activity of the district and contained numerous errors and inconsistencies.

6. Modular Unit Lease Agreements (pages 20-21)

The district did not adequately review the options for the modular classrooms. The district leased the units and paid almost as much had the district purchased the units outright. The lease agreement required the district to return the units at district expense totaling approximately \$98,000.

7. Personnel Procedures (pages 21-22)

The district's administrators' salary schedule is not utilized by the district. Improvements are needed in the district's procedures for sending letter of intent to teachers and documenting employee termination records with the district. The district does not have a policy prohibiting employees being supervised by their relatives.

8. Petty Cash and Soda Machine Funds (pages 23-24)

Improvements are needed with the accounting controls over the district's petty cash and soda machine monies.

ST. CHARLES R-VI SCHOOL DISTRICT
 ST CHARLES COUNTY, MISSOURI
 MANAGEMENT ADVISORY REPORT -
 STATE AUDITOR'S CURRENT RECOMMENDATIONS

1.	Financial Condition
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During the last five years, the district has experienced growth in the revenues and expenditures of the operating funds (General Fund and Special Revenue Fund). Despite the growth in district revenues, the district has spent more than it received three out of the last five years resulting in a decline of the district's ending balance. A review of the financial condition of the district's operating funds indicates the district's operating fund balances have declined over the past several years as shown below:

	Year Ended June 30,				
	1998	1997	1996	1995	1994
Beginning balance	\$ 559,271	1,996,881	2,307,121	1,737,403	2,293,207
Receipts	43,546,868	40,626,197	39,393,246	36,678,588	34,603,685
Expenditures	(42,928,679)	(41,858,540)	(39,619,948)	(35,970,800)	(35,160,201)
Net Transfers	(224,508)	(205,267)	(83,538)	(138,070)	712
Ending balance	\$ 952,952	559,271	1,996,881	2,307,121	1,737,403
Ending Balance as a					
Percentage of Expenditures	2.22%	1.34%	5.04%	6.41%	4.94%

During the two years ended June 30, 1998, the district was designated "Financially Stressed" by the Missouri Department of Elementary and Secondary Education (DESE). "Financially Stressed" means the district's balances of its operating funds are below three percent of the expenditures in its operating funds. During our review of the financial condition of the district, the following areas were noted that contributed to the overall financial decline of the district:

- A. Prior to the 1998-99 school year, the district entered into agreements with the teachers, administrators, and support staff that required the school district to distribute as supplemental payments to the teachers, administration, and support staff any "excess balances" in excess of five percent in the operating funds at the end of the year. The district distributed approximately \$667,000 in September 1995 for "excess balances" accumulated during the 1994-95 school year. The restrictive agreements prevented the district from accumulating reserves in excess of five percent in the operating funds.

By maintaining such small ending balances in the operating funds, the district has severely limited its ability to handle any unexpected shortfall in revenue or unforeseen expense. To

ensure district resources are adequate, the district should develop adequate reserves and review any restrictive agreements that limit the district's operating balances.

- B. The district did a poor job budgeting and monitoring its financial position for the 1996-97 school year. As shown below, the district did not make the necessary adjustments to maintain an adequate ending fund balance.

General Fund	Year Ended June 30, 1997		
	Original Budget	Actual	Difference
Beginning balance	\$ 1,446,788	1,552,300	105,512
Revenue	16,551,548	18,556,064	2,004,516
Expenditures	(16,512,552)	(18,626,261)	(2,113,709)
Transfers	0	(922,832)	(922,832)
Ending balance	\$ <u>1,485,784</u>	<u>559,271</u>	<u>(926,513)</u>
<u>Special Revenue Fund</u>			
Beginning balance	\$ 432,875	444,581	11,706
Revenue	22,519,683	22,070,133	(449,550)
Expenditures	(23,022,680)	(23,232,279)	(209,599)
Transfers	0	717,565	717,565
Ending balance	\$ <u>(70,122)</u>	<u>0</u>	<u>70,122</u>

The budget is an important document for a school district. It provides a definite financial policy for the operations of the district and must be prepared carefully and thoroughly to encompass the broad spectrum of events and activities which occur during a fiscal year. Further, a complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing cost expectations for each area and provide a means to effectively monitor actual costs. By properly monitoring the budget, the district can compare revenue and expenditure projections to actual results and make appropriate changes as needed.

The district has demonstrated a better job monitoring the financial position of the district beginning with the 1997-98 school year and utilizing the budget document as a tool to monitor and control the district finances. Financial reports currently identify the district's financial position and any significant changes that are reflected in board approved budget adjustments. The approved 1998-99 budget projects that the district balances will be sufficient in the operating funds to no longer be designated "Financially Stressed".

WE RECOMMEND the School Board develop adequate balances in the district's operating funds and review any restrictive agreements that prevent the district from establishing reasonable balances. In addition, the district needs to continue to develop annual budgets that more accurately reflect the district's anticipated activity. The district should monitor the district's financial position

in a timely manner and make any necessary adjustments to ensure compliance with the district's financial constraints.

AUDITEE'S RESPONSE

- A. *The district will end the 1998-99 fiscal year with an approximate balance of \$2,000,000 and is "on target" to meet the Board's goal of a nine percent balance by the end of the fiscal year 2002-2003 (based on the statutory formula for determining financial stress). A \$450,000 surplus has been planned in the 1999-2000 budget. The district is projected to end the fiscal year with a six percent balance. All restrictive language has been eliminated from the current "meet and confer" agreement. In addition, the district has made significant modifications to the early retirement incentive and pay for unused sick leave plans that it feels will have a positive effect on district reserves.*

- B. *District personnel did monitor the budget for 1996-97. District officials began expressing concerns to the Board as early as January 1997 concerning the potential overstatement of revenues and understatement of expenditures as presented in the original budget. Although the potential for the district to experience a significant reduction in fund balances was identified, the solution to stabilizing fund balances would have required a massive reduction in force during the middle of the academic year. This was not a feasible alternative because of the detrimental effect on the district's students.*

2.

Construction Projects

Bond issues, totaling approximately \$33.6 million were approved by the voters in 1993, 1994, 1996, and 1997 for the renovation and construction of various school facilities. In May 1997, the district engaged Hochschild, Bloom & Company LLP, Certified Public Accounts (CPAs) to perform a review of the revenues and expenditures relating to these bond issues. We reviewed the report, dated June 30, 1997, and substantiating workpapers of the CPA, as well as projects which had not been completed at the time of the auditor's report. Our review noted the following areas of concern:

- A. Bid documentation was not retained by the district for the "Building C" portion of the St. Charles County High School (SCHS). The district sought bids from various contractors for steel and erection, carpentry, roofing and sheet metal, flooring, HVAC, plumbing, fire protection, and electrical work. The district has listed the bids received from various vendors; however, the original bid documentation was not retained. In addition, the district advertised for these bids; however, the documentation to support the bid advertisement was not retained by the district. Upon request, the district obtained the applicable bid documents and bid advertisement from their construction management firm.

Section 177.086, RSMo 1997 Supp., requires that school districts advertise bids for construction of facilities which may exceed an expenditure of \$12,500. In addition, bidding procedures for construction projects provide a framework for economical management of school district resources and help assure the district that it receives fair value by contracting with the lowest and best bidder. Documentation of bids should always be retained as evidence of the district's established bidding procedures and to show statutory requirements are followed.

- B. Although recommended in the independent accountants' report, the district still does not properly approve all change orders and work orders. The district has an informal policy which requires board approval for all change orders and work orders. The written policy allows the Superintendent to approve any change orders or work orders not exceeding \$25,000, with a report to follow at the next scheduled board meeting. During our review, we noted the following concerns related to change and work orders:
- 1) Change orders and work orders were not always properly approved by the school board. During our review, we noted four change orders and work orders, totaling \$61,800, which had not been approved by the school board. Three of the orders had been approved by the Superintendent; however, there was no board approval as required by district policy.
 - 2) Work orders signed by the Superintendent, construction manager, and contractor cannot always be located in the district files. The district has indicated that they did not begin signing and retaining work orders until the beginning of the "Building C" construction project; however, we noted one work order relating to this project, in the amount of \$11,756, which could not be located in district files.

The Board should authorize all significant changes to construction contracts to ensure any additional expenditures represent valid and appropriate costs to the district.

Adequate documentation of the change and work orders should be retained by the district to document the purpose and amount of the order, as well as to document the district's approval and compliance with board policy. Board approval of the change and work orders should be documented in the board meeting minutes.

WE RECOMMEND the School Board:

- A. Ensure all bid documentation is received and retained by the district.
- B.1. Ensure all change orders and work orders are approved by the school board as required by board policy.
2. Ensure work orders are supported by a written document signed by the Superintendent.

AUDITEE'S RESPONSE

- A. *All bid documentation will be received and retained by the district at its central office rather than storing the documents at the architect's office.*
- B. *Prior to January 1997, there is evidence that no change/work orders were reported to the Board. Policy FEF was revised in July 1997, to give the Superintendent the flexibility of approving change/work orders not to exceed \$25,000, with a report to follow at the next scheduled Board meeting. Board policy FEF has been followed without exception; however, it has been the practice of the current administration to report and seek board approval of all change/work orders. Since implementation of this procedure, only four (4) change/work orders totaling \$61,800 were reported to the Board, but inadvertently omitted for Board approval. When the omission was subsequently discovered, the administration resubmitted the change/work orders for approval by the Board. The district has since changed the board meeting agenda format to ensure the board will approve all change orders and work orders. The old format was more conducive to having items inadvertently omitted as follow-up action items after the initial discussion. In the case of the four, work and change orders cited by the study, the items were discussed and verbally approved by the board but were not included on the agenda as a formal action item.*

The district will continue its current procedure and plans to amend policy FEF to reflect reporting and seeking board approval of all change/work orders.

3. Architect and Construction Manager
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The district engaged a firm to provide architect and engineering services as well as construction management services for all of its construction projects. Under the contracts, dated October 1994, the district pays the firm 5 1/4% of the project costs for architect and engineering fees, and 8 1/4% of the project costs for construction management fees. The district has paid the firm approximately \$4 million for architect and engineering services and construction management services since 1993 related to the bond issue projects. Our review of the construction management of the projects noted the following areas of concern:

- A. By allowing the same firm to provide these services, the architect was monitoring the accuracy and adequacy of its own design work. This situation did not allow for an independent review of the design. An independent review is essential to ensure that design inadequacies are appropriately revealed, reported, and corrected.
- B. The district entered into a contract with the firm to require all payments for construction activity be made through the firm. The contractors for each project received payment from the school district through the architect/construction manager. The method of paying the contractors in this manner placed the district at risk of loss. It appears that under this

process, the school district would have been liable had the architect/construction manager failed to pay the contractors. In addition, the architect/construction manager was not required to carry a bond to insure payment to the contractors in case of default.

The district should ensure that future contracts provide for direct payments from the district to the contractors to reduce their liability.

WE RECOMMEND the School Board:

- A. Retain an independent person or firm to perform construction management duties.
- B. Ensure future contracts provide for direct payment from the district to the contractors.

AUDITEE'S RESPONSE

- A. *The district will employ two separate firms to perform architectural and construction management duties for future projects.*
- B. *Instead of signing a standard AIA (American Institute of Architects) contract, as it has in the past, the district will use its own contractual agreement, developed by the district's attorney, to protect the district's interest and from being at risk of loss. The contract will specify that vendors shall be paid directly by the district.*

4. Expenditures

- A. The school district does not always solicit bids or retain adequate bid documentation for major purchases. The district's bidding policy states that a formal bidding process shall be used for projected expenditures of \$12,500 or greater for supplies, materials and equipment. The policy also states that any item with a purchase price of at least \$1,000, but less than \$12,500 must have at least three telephone or written quotes from vendors. The bidding procedures to be followed based on the type and size of the purchase, are also indicated in the policy. The following are examples of purchases for which the district did not follow a bid process or did not retain adequate bid documentation:
 - 1) The district contracts with a transit company for transportation of its pupils. The district selected this company through a bid process and entered into a contract with the company covering the period of July 1994 to June 1999. In March 1998, the district negotiated another five year contract with the company. During the year ended June 30, 1998, payments totaling approximately \$1,352,000 were made to the company.

During the original selection process, the district documented that it received bids from four different transportation companies; however, that bid documentation cannot be located. In addition, the district indicated that it negotiated a second five year contract with the company, rather than rebidding the services because they believed a lower rate could be obtained through negotiations rather than bids. Without periodically bidding transportation services, the district cannot ensure it is paying the lowest and best rate.

- 2) From April 1995 to July 1998, the district leased 13 modular units at a total cost to the district of approximately \$416,000. The district's bid tabulation sheets noted bids were solicited from three leasing companies; however, only one of the bids could be located.
- 3) The district paid an individual \$4,865 in April 1998 to perform finishing work on a house built by the building trades class. Quotes were not solicited for the finishing work and there was no documentation supporting the reasons for selecting this individual.

The district's purchasing procedures could be made more effective by following the adopted bidding policy. Written documentation of bids also provides evidence that the board has complied with its policy. Bid documentation should include a list of vendors contacted, a copy of the bid specifications, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors.

- B. The school district did not always enter into written contracts defining services to be provided and benefits to be received. During our review, we noted the following expenditures which were not supported by written agreements:

<u>Item</u>	<u>Cost</u>
Taxi transportation	\$ 96,488
Legal services	92,105
Labor for finishing a house	4,865
Customized training consultant	4,560

Written contracts, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. In addition, Section 432.070, RSMo 1994, requires contracts for political subdivisions to be in writing.

- C. In some instances payments were processed without a sufficiently detailed invoice or other adequate supporting documentation. Examples include a payment in the amount of \$8,999 for legal fees, and the \$4,865 payment to the individual noted in A.3. above. Invoices

submitted for both payments did not include an itemized listing of the work performed and the related hours being billed, nor were the invoices detailed enough to allow the district to verify the accuracy of the invoices.

To ensure the validity and propriety of the expenditures approved for payment, adequate documentation of services being billed should be obtained.

- D. Invoices were maintained at the schools and not submitted to the Superintendent's office for some expenditures made from the student activity funds. For some expenditures reviewed, the only documentation available at the Superintendent's office was a purchase order form prepared by the individual school requesting the funds. The district's student activity funds management policy states that the Superintendent's office shall present to the school board for approval, only those bills for which there is a copy on file at the Superintendent's office, an itemized invoice and a signed copy of the purchase order to indicate the merchandise has been received and is acceptable. Without this documentation, the Superintendent's office cannot adequately review the expenditure for propriety and accuracy.

WE RECOMMEND the School Board:

- A. Establish more specific bid policies and procedures which require formal solicitation of bids for all major purchases including criteria as to how bids are to be solicited. In addition, documentation of bids received and the bid process should be maintained.
- B. Enter into written agreements with all parties that clearly detail the work to be performed and the compensation to be paid or benefits received.
- C. Require adequately detailed original invoices containing approval and indication of receipt of goods or services be on file before processing payments.
- D. Ensure adequate documentation for all student activity fund expenditures be submitted to the Superintendent's office before processing.

AUDITEE'S RESPONSE

- A. *Board policies DJC and DJC-AP adequately address contracts for purchase of supplies, materials, equipment and major repairs. The district will add procedures for contracts regarding purchased services. Documentation for all bids received will be maintained by the central office. Bids for transportation are not required by statute and, based on district administrators' research, it was concluded that a zero (-0-) percent increase in the cost per run for 1998-99 and a four-percent (4%) increase for the 1999-00, 2000-01, 2001-02 and 2002-03, respectively, could not be improved upon by seeking bids.*

- B. *Written agreements will clearly detail the work to be performed and compensation to be paid or benefits received.*
- C. *The district currently requires detailed original invoices containing approval and indication of receipt of most goods or services to be on file before processing payments. The specific service providers cited in the audit will be contacted and a detailed original invoice will be required before processing payments.*
- D. *It is not feasible for all invoices to be maintained at the central office (especially for student activity accounts). All student activity invoices must be approved by the building principal and building financial secretary prior to being sent to the central office for payment; therefore, the district will change policy IGDG-R to reflect returning invoices related to student activity purchases to the appropriate building.*

5.	Budgeting Procedures
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- A. For the three years ended June 30, 1998, the district overspent approved budget amounts in various funds. For the year ended June 30, 1996 actual expenditures exceeded final budgeted expenditures in the General Revenue and Debt Service Funds by \$361,351 and \$605,164, respectively. The district overspent approved final budget amounts in the General Revenue Fund by \$8,821 during the year ended June 30, 1997.

Beginning in July 1997, the district implemented procedures to monitor the budget on a monthly basis and budget adjustments are currently approved by the school board. Although the district has made improvements in this area, the district overspent the budget in the Capital Projects Fund by \$42,778 during the year ended June 30, 1998. These concerns were also noted by the district's independent auditors.

The budget process provides a means to allocate financial resources in advance. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of this process. Section 67.040, RSMo 1994, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo 1994, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The School Board should require that timely budget to actual comparisons are received and reviewed prior to approving expenditures.

- B. There were numerous errors and inconsistencies in the district's budget documents for the year ended June 30, 1997. Differences were noted between amounts presented on the budget document summary page located in the front of the budget, the itemized budget pages in the body of the budget document, and in the amounts actually approved by the board.

- 1) The School Board adopted the 1996-97 budget on June 13, 1996. The board minutes note the approved budget expenditures totaled \$48,046,923. Although the total reflected in the board information was the same amount, the individual amounts listed by fund totaled \$48,168,916, a difference of \$121,933.
- 2) Other differences were as follows:

<u>Budgeted</u>	<u>Amount Approved by Board</u>	<u>Budget Budget Document</u>	<u>Document Document Summary</u>
Receipts	\$ N/A	40,725,893	41,666,920
Expenditures	48,046,923	41,845,818	51,287,690

- 3) The district tracks the budget versus actual expenditures on the computer system. For the year ended June 30, 1997, the district computer system reflected budgeted amounts of \$51,480,011 for all funds. This amount does not agree to the budget document summary, itemized expenditures per the budget document, or the amount approved by the board.

Without sufficient, accurate, and complete budget documentation, the district cannot adequately monitor its compliance with the budget. An accurate budget is essential for effective financial planning.

WE RECOMMEND the School Board:

- A. Ensure expenditures for individual funds do not exceed the amounts approved in the budget, unless proper and timely amendments are made prior to the expenditures.
- B. Ensure the budget document is accurate and complete and agrees to the budget amounts approved by the school board. In addition, the district should ensure the budget amounts approved by the board are correctly entered into the computer and used to track expenditures.

AUDITEE'S RESPONSE

- A. *In addition to its current practice of monitoring the budget and presenting monthly budget adjustments to the Board for approval, the district will recommend that the Board approve a budget amendment to adjust all budget figures to actual at each of its June meetings. This will eliminate the possibility of having an insignificant overage in a fund. When budgets are closely monitored and reflect realistic expenditures, a fund can be inadvertently exceeded by an insignificant amount in June when it is too late to get approval by the Board for an adjustment prior to the end of the fiscal year. The district feels this is a more desirable*

option than inflating expenditures to avoid insignificant overages. Any significant adjustments which could indicate poor budgeting practices would be noted by the annual audit performed by an independent auditing firm.

- B. Since 1997-98, the budget document has been accurate, complete and agrees to the budget amounts approved by the Board. During the same time frame, budget amounts have been accurately entered into the computer and used to track expenditures. The assistant superintendent for business services and two district bookkeepers independently confirm amounts listed in the budget, general ledger report and all budget adjustments prior to presentation to the Board.*

6. Modular Unit Lease Agreements

In April 1995, the district entered into a three year lease agreement for modular classrooms to use while the district was renovating facilities. The district entered into another lease agreement for additional modular units in May 1996. This lease covered a twelve month period, and was later extended to a month to month basis. The leasing of the units cost the district a total of \$415,912 through June 1998.

- A. The district was given the opportunity to purchase, lease, or lease purchase the units when they began reviewing their options for the temporary classrooms. It appears the district did not adequately evaluate the options to purchase or lease purchase the units. The district paid a total of \$229,529 in lease payments and costs to return the units for the first lease. These units could have been purchased by the district for \$223,152 or lease purchased for \$245,557. Had the district retained ownership of the units, the vendor indicated the units could have been sold for approximately \$197,000 at the end of the lease period. By lease purchasing or purchasing the units, the district could have saved between \$181,000 and \$203,000. In addition, for the second lease, the district paid a total of \$186,383 for the lease payments and costs to return the units. The district paid more than 64 percent of the \$291,025 purchase price of the units, which were leased for less than two years. Had the district purchased these units, the district would have been able to sell them for approximately \$290,000 according to the vendor, thereby saving approximately \$185,000.

The district should adequately plan and consider all options to ensure the district receives the most financial benefit.

- B. The lease agreement required the district to return the units at the district's cost to a location, to be designated by the lessor, within the continental United States upon termination of the lease. The district paid approximately \$98,000 (included in the total costs of \$415,912) in dismantling and relocating costs related to the classroom units.

Prior to entering into the first lease agreement in April 1995, the district's attorney advised them of the potential high costs of the return of the units, as required by the lease agreement. It appears the district did not adequately consider the total costs of the lease before signing the lease. Contract requirements should be closely evaluated and considered when determining the financial impact of the agreement.

WE RECOMMEND the School Board carefully review all contractual agreements to ensure the district receives the best financial benefit for the cost.

AUDITEE'S RESPONSE

All contractual lease agreements will be reviewed by the Board (or its designee) to ensure the district receives the best financial benefit for the cost.

7. Personnel Procedures

- A. On March 17, 1994, the school board adopted a salary schedule for all administrators in the district except for the superintendent. Effective for the 1996-97 school year, administrators were given an increase in pay; however, the salary schedule was not updated.

The district is currently not using the adopted administrators' salary schedule. When a new administrator is hired, the salary is negotiated rather than determined by a salary schedule. It appears the adopted schedule is no longer beneficial to the district or used for its intended purpose.

- B. Each year, prior to approving teacher contracts, the school board issues letters of intent to district teachers notifying them of its intent to continue their employment for the next school year. Our review of the 1998-99 letters of intent distributed to the teachers noted that several letters were issued to individuals that were no longer employed by the district, including teachers who had terminated employment at the end of the 1995-96 school year.

Our review of the district's procedures for preparing the letters of intent noted a lack of procedures to ensure the accuracy of the letters before distribution.

- C. Upon termination of a district employee, the building principal is to prepare a personnel change notice. The personnel change notice is approved by the Assistant Superintendent for Human Resources and the School Board, and forwarded to the payroll department, authorizing the removal of the individual from the payroll system.

Our review of files for employees who were no longer employed with the district, noted many instances in which a personnel change notice was not prepared upon the employee's

termination. Payroll department employees indicated that they usually remove an employee from the payroll system based on board agendas, verbal notice from Human Resources, or a letter from the building principal. The failure to prepare the personnel change notice increases the risk that an unauthorized payroll transaction can occur.

- D. The district does not have a policy prohibiting employees being supervised by their relatives. The Maintenance Supervisor directly supervises a maintenance employee that is related to him. As a result, the supervisor approves the time sheets and overtime of his relative. This situation of providing direct supervision of a relative provides for an appearance of a conflict of interest. A supervisor should be independent of the employee to provide for an assurance of fairness to all employees and adherence to district policies.

WE RECOMMEND the School Board:

- A. Evaluate the need for the adopted administrators' salary schedule and make appropriate changes to the schedule.
- B. Ensure procedures are established to ensure letters of intent are only sent to applicable employees.
- C. Ensure a personnel change notice is prepared, approved, and submitted to payroll for each terminated employee.
- D. Adopt a policy prohibiting an employee from supervising a relative.

AUDITEE'S RESPONSE

- A. *The Board rescinded the previous administrators' salary schedule at the regular March 1999 meeting.*
- B. *The district has updated its Pentamation software and personnel data entries to ensure that only active certificated employees are considered for any contract or salary negotiations' considerations. The district can utilize the same program as referenced above for accurate mailings to support staff personnel but has not incorporated all salary schedules since they are still being developed through the formal meet and confer process.*
- C. *Both the human resources and payroll/benefits department personnel have coordinated their efforts to ensure that the personnel change notices are accurately and completely filled out by all building administrators, directors or supervisors. All district administrators have been notified of their obligation to have the notice on file before any payroll or benefit changes are executed.*

The only area still needing attention is for the short-term substituting incidents which occur without enough notice or warning for the administration to effectively fulfill the educational and support functions within their respective buildings. Unless the temporary assignment or substituting exceeds thirty (30) days, the change will be reflected on that individual's time sheet which is reviewed and signed by the building administrator or supervisor.

- D. *Current statutes and board policy only address the issue of nepotism for board members. It is not unusual for administrators or supervisors to evaluate relatives working within their building or areas of concern such as maintenance and other support staff positions. The Board may direct at its discretion any rules or regulations deemed appropriate for this issue. This is entirely a local governance issue. However, the Board will review the policy dealing with employees supervising relatives.*

8.

Petty Cash and Soda Machine Funds

- A. Each school maintains its own petty cash fund, ranging from approximately \$50 to \$100. Although the district policy requires petty cash funds to be maintained on an imprest basis, some of the funds are not. In addition, ledgers are not maintained on some funds to document all transactions and there is often no independent review of the funds to ensure they are being maintained properly.

Invoices should be maintained for all petty cash expenditures and the funds should be operated on an imprest basis, meaning that cash and the invoices should always total the established balances, and checks issued to replenish the funds should equal the amount of invoices. Ledgers of all petty cash fund transactions should be maintained. Periodically, the funds should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect any errors, and to help prevent these monies from being misused.

- B. The district operates several soda and vending machines throughout the various school buildings. Custodians or other district employees are responsible for replenishing the machines and emptying the change from the machines on a periodic basis. The monies are turned over to designated individuals in the buildings who count and deposit the monies.

An independent party does not periodically reconcile the amount of soda and other items purchased and remaining in inventory with receipts from the sale of the soda and other items. Failure to reconcile monies received to items sold could result in the loss or misuse of funds.

WE RECOMMEND the School Board:

- A. Formally establish an imprest amount for each petty cash fund and ensure the funds are periodically counted and reconciled to the imprest balance by an independent person. In addition, invoices should be maintained for all petty cash expenditures and a ledger should be prepared of all petty cash transactions.
- B. Ensure independent reconciliations of soda and vending machine monies received to items purchased and remaining in inventory are performed.

AUDITEE'S RESPONSE

- A. *Policies DJB and DJB-R establish an imprest amount for the petty cash fund and establish a procedure for handling such accounts. Copies of the policies have been forwarded to building principals, directors and assistant superintendents with instructions to follow current policy. The assistant superintendent for business services will conduct at least one random check of each building's procedures each fiscal year. Building principals and directors (or their designees) shall conduct at least four random checks each fiscal year. The district's auditors will also be asked to randomly check petty cash procedures.*
- B. *Each soda machine has a counter which tracks the amount of product sold. The individual who collects the money from the machine shall record the count each time the collection is made. The business secretary at each building shall multiply the product retail price by the count from the machine to verify the accuracy of the amount collected. Any discrepancy shall be noted on a form as cash short or over. Any significant discrepancy shall be brought to the attention of the building principal who will notify the central office.*

OVERALL SCHOOL BOARD RESPONSE TO STATE AUDITOR'S REPORT

The board hired a new administrative team. The district has a new superintendent of schools, a new assistant superintendent for business, a CPA on staff, and a new assistant superintendent for human resources. Second, the patrons, staff, administration, and board made serious cuts in district expenditures. Third, the same group, working hard and working together, managed to increase tax revenue. Fourth, a board motion made it a district goal to increase the balances to 9 percent by 2003, in the combined teachers and incidental funds. After the 1998-1999 school year, the district will be removed from the financial stress list and will end the year with a reserve balance of about 4.7 percent. We will continue to build on this reserve at the rate of 1 percent each year until we reach our goal. Fifth, the salary contingency agreement is gone. Sixth, the budget reflects the way the district spends money and timely adjustments are made when necessary. Seventh, the board and administration will implement the suggestions given to us by the state auditing team.

In summary, the board, administration, and community have changed and improved the way the district conducts business.

This report is intended for the information of the management of St. Charles RV-I School District, and other applicable district officials. However, this report is a matter of public record and its distribution is not limited.