

OSAGE COUNTY R-II SCHOOL DISTRICT YEAR ENDED JUNE 30, 2001

# From The Office Of State Auditor Claire McCaskill

Report No. 2002-115 December 3, 2002 www.auditor.state.mo.us





### The following problems were discovered as a result of an audit conducted by our office of the Osage County R-II School District.

Despite 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 cash balance in the operating funds. During June 2002, the district borrowed \$100,000 in the form of a tax anticipation note to cover expenses. State law considers school districts to be in financial stress when tax anticipation notes are borrowed during February through June to meet current year expenditures. Poor budgeting and expenditure procedures appear to have contributed to the district's current financial situation.

Controls over expenditures have been inadequate. Payments were apparently made for personal purchases, and travel expenses appeared excessive. Payments were made without the required purchase orders or vendor invoices, and were not reviewed for propriety. Some purchases were not properly bid, and some expenditures appeared excessive or unnecessary for district operations.

Former superintendent, Dr. Brian Kirk, apparently made personal purchases with district funds. Many purchases were made on the district's credit card, and some were on various charge accounts or through direct payments to vendors. While some reimbursements were made to the district, the district has not been fully reimbursed for all personal purchases.

- After an investigation in June 2001, Dr. Kirk returned several items to the district, and identified several additional items as personal purchases but did not reimburse or return these items to the district. In addition, we noted other purchases that appeared personal that had not been identified.
- The district credit card was frequently used for personal use. Credit card charges totaled \$17,782, \$10,248, and \$7,536; and personal credit card charges identified by Dr. Kirk totaled \$5,487, \$2,040, and \$976 during the years ended June 30, 2001, 2000, and 1999, respectively. The personal charges identified on the credit card statements were rarely supported by invoices, signed credit card slips, or documentation justifying the purchases. Of the \$8,503 of personal purchases, more than \$2,400 was for cash advances.

Dr. Kirk made payments to the district and "applied" personal expense reimbursements and grant writing stipends against the personal credit card purchases. However, the validity of the expense reimbursements and stipends is questionable.

The district has not established a comprehensive travel policy and has incurred extensive travel expenditures during the past several years. Expenditures charged to travel accounts, including travel expenses, conference registration, and membership dues exceeded \$48,000 and \$57,000 during fiscal years 2002 and 2001, respectively. Several travel expenditures appear questionable or personal in nature. Travel expenditures were not always supported by adequate documentation of actual expenses incurred. Additionally, while some expense reimbursement claims did include supporting documentation, the validity of the documentation is questionable.

The district did not follow its established payment procedures policy. Numerous payments were processed without adequate supporting documentation including \$6,617 for appliances for the high school. In addition, the district's current bidding procedures could be made more effective by adopting a more comprehensive policy.

Numerous expenditures were coded incorrectly and transfers were made without adequate documentation. In addition, the budgets were not properly amended and monitored by the district.

Problems have been noted in the handling of state and federal funding. The district was overpaid \$213,363 in state funding due to inaccurate reporting related to the lease-purchase of a building for the Alternative School. There were few procedures or controls over programs and grants and problems with grant programs were noted including, the Safe Schools Grant, the Vocational Enhancement Grant, the School to Work Grant, the Service-Learning Coordinator Grant, and the Goals 2000 Local Reform Discretionary Grant.

Employment contracts were not established or have not been retained for former district superintendents. Some compensation policies and agreements were not approved by the School Board.

The transportation contract has not been bid since contracting with the current transportation company over 25 years ago. The district has periodically renegotiated a contract with the company, without seeking bids from other companies, or evaluating the costs and benefits of owning its own transportation system.

The audit report also includes some other matters related to expenditures, accounting systems, construction project bidding, professional services, cellular phone use, board meeting minutes, receipt procedures, and general fixed assets upon which the school district should consider and take appropriate corrective action.

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STATE AUDITOR'S REPORT



## CLAIRE C. McCASKILL Missouri State Auditor

To the Board of Education Osage County R-II School District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Osage County R-II School District. The School Board had engaged Mueller, Walla & Albertson, P.C. Certified Public Accountants (CPAs), to audit the school district for the year ended June 30, 2001. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the school district included, but was not necessarily limited to, the year ended June 30, 2001. The objectives of this audit were to:

- 1. Perform procedures to evaluate the petitioners' concerns.
- 2. Review compliance with certain legal provisions.
- 3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the school district.

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

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Osage County R-II School District.

Claire McCaskill State Auditor

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July 2, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
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MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS

#### OSAGE COUNTY R-II SCHOOL DISTRICT MANAGEMENT ADVISORY REPORT -STATE AUDITOR'S FINDINGS

#### 1. Financial Condition

Despite 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 cash balance in the operating funds (General Fund and Special Revenue Fund) as evidenced by the following data presented in district audit reports and the fiscal year 2002 Annual Secretary of the Board Report (ASBR):

	Year Ended June 30,					
	2002	2001	2000	1999	1998	
Beginning balance	\$ 271,177	149,496	165,256	563,427	451,643	
Revenues	5,307,189	5,287,412	4,825,565	4,466,579	4,540,049	
Expenditures	(5,370,309)	(5,165,731)	(4,841,325)	(4,671,811)	(4,375,132)	
Net transfers	0	0	0	(192,939)	(53,133)	
Ending balance	\$ 208,057	271,177	149,496	165,256	563,427	
Ending Balance as a Percentage of Expenditures	3.87%	5.24%	3.09%	3.54%	12.88%	

The financial condition of these operating funds has declined since 1998. During June 2002, the district borrowed \$100,000 in the form of a tax anticipation note to cover expenses. Section 161.520(1), RSMo 2000, considers school districts that borrow through tax anticipation notes during February through June to meet current year expenditures to be in financial stress. Poor budgeting and expenditure procedures appear to have contributed to the district's current financial situation.

The district overspent its original budgets during each of the three years ended June 30, 2002. Actual expenditures exceeded the amounts originally budgeted in the General Revenue Fund by \$643,701, \$430,490, and \$154,813, in fiscal years 2002, 2001, and 2000, respectively. There was no documentation that the Board was provided monthly or periodic financial information prior to fiscal year 2002 to monitor the financial condition of the district. If better budgeting and monitoring procedures had been in place, it appears the Board may have been in a position to address the financial decline in a more timely manner. See Management Advisory Report (MAR) No. 5 for more specific budgeting concerns.

Controls over expenditures have been inadequate. Payments were apparently made for personal purchases, and travel expenses appeared excessive. Payments were made without the required purchase orders or vendor invoices, and were not reviewed for propriety. Some purchases were not bid, and some expenditures appeared excessive or unnecessary for district operations. See MAR Nos. 2 through 4.

The district does not have a long-term financial plan. Although the budget process provides annual financial planning, the School Board needs to plan for the long term to ensure the district can stabilize or increase the fund balance.

While reductions in expenditures appear necessary, the district's financial condition can also be improved with more effective management practices and more effective controls and procedures. Various needed improvements are discussed throughout this report.

**WE RECOMMEND** the School Board closely review the current budget and develop long-range plans to improve the financial condition of the district.

#### **AUDITEE'S RESPONSE**

The School Board indicated:

The Board of Education has approved the purchase of a new budgeting program as requested by the new superintendent during contract negotiations. This program will not be available for several more months, but current local data is now being gathered for completion of this program.

The new superintendent has been giving the Board of Education monthly updates on current revenues and expenditures. Several changes have already been implemented to monitor various identified fiscal concerns such as the food service program, soft drink machine accountability procedures, the lack of tracking substitute costs, limitations on out-of-district staff meetings and meal reimbursements, as well as the cost of extra-curricular activities. An inquiry survey of personnel and programs has been sent to twenty-six schools of similar size to compare expenditures. The principals, with the assistance of the superintendent, will hold staff meetings to brainstorm various strategies for reducing expenditures. The new superintendent has set an early December 2002 target date to present gathered information and recommendations to the board to aid in the decision making process. Budget cuts to produce a feasible budget that reflects increases in fund balances will be made between December 2002 and January 2003. A long-range plan will be developed after this time.

#### 2. Personal Purchases with District Funds

Former superintendent, Dr. Brian Kirk (Dr. Kirk), apparently made personal purchases with district funds. Many purchases were made on the district's credit card, and some were on various charge accounts or through direct payments to vendors. Dr. Kirk identified in district records items apparently purchased for personal use, and sometimes documented his intentions of reimbursing the district. While some reimbursements were made to the district, the district has not been fully reimbursed for all personal purchases.

A. After the Osage County Sheriff began an investigation in June 2001, Dr. Kirk returned several items to the district including shelving, a treadmill, numerous tools and shop equipment, two televisions, a heater, a whirlpool bathtub,

computer equipment, a barbeque grill, a canopy, portable lights, a computer desk, garage door openers, emergency automobile kits, a guitar, a keyboard, snow skis, two ladders, and other miscellaneous items. These items were purchased with district monies and most had not been identified on district records as personal purchases to be reimbursed to the district. There is no indication that reimbursement was received on any of these items. Currently, some of these items have been put to use by the district, some are in the custody of the Sheriff, and some are in storage at the district.

Dr. Kirk identified several additional items (a recliner, a second guitar, and books) purchased in fiscal years 2000 and 2001 costing approximately \$784 as personal purchases and did not reimburse or return these items to the district.

In addition, we noted other purchases not identified by Dr. Kirk as personal that appear to be personal; however, vendor statements and invoices typically did not contain sufficient documentation to determine the purpose of the expenditures. Examples of items noted include computer equipment, a ladder, shelving, food, clothing, toiletries, cleaning supplies, tools, a tent, and home furnishings. District employees were unable to locate most of the items. Without documentation of the purpose of expenditures, the district cannot ensure the items were for district use.

During the three years ended June 30, 2002, reimbursements totaling \$344 were received from Dr. Kirk, apparently for personal items purchased; however, it is unclear if those reimbursements were for any of the items listed above. As noted at MAR No. 4, district procedures relating to expenditures were inadequate; therefore, these purchases were not reviewed and questioned in a timely manner. The School Board did not adequately review expenditure documentation. The district has recently established procedures to ensure payments to charge accounts are supported by invoices and purchase orders.

B. Dr. Kirk frequently used the district credit card for personal use. While purchases charged to the district credit card were primarily for travel (meals, motel, car rental, and gasoline); they also included miscellaneous supplies for the school, cash advances, and other personal charges. Total credit card charges, as well as personal charges, increased significantly during the three years ended June 30, 2001. Credit card charges totaled \$17,782, \$10,248, and \$7,536; and personal credit card charges identified by Dr. Kirk totaled \$5,487, \$2,040, and \$976 during the years ended June 30, 2001, 2000, and 1999, respectively.

According to district records, Dr. Kirk's personal purchases were reimbursed to the district in a variety of ways, including payments made directly to the credit card company, payments made directly to the school district, and applying expense reimbursements and grant writing stipends to the personal charges.

1) The personal charges identified on the credit card statements were rarely supported by invoices, signed credit card receipt slips, or documentation

justifying the purchases. As noted in MAR No. 3, there appear to be additional questionable charges.

Personal charges identified included gasoline purchases, restaurant meals (some entire meals and the portion over a self-imposed \$18 limit for business meals), cash advances and other purchases. Of the \$8,503 of personal purchases, more than \$2,400 was for cash advances.

- During the three years ended June 30, 2001, Dr. Kirk "applied" personal expense account reimbursements totaling \$4,017 and grant writing stipends totaling \$2,100 against his personal credit card purchases. In addition, actual payments totaling \$3,134 were made to the district during the period July 1, 1998 to June 30, 2002, of which \$1,684 represents payments made after the Board began making inquiries. Documentation was inadequate to explain to which personal charges the payments might apply.
  - a) The total expense reimbursement claims, amounts paid, and amounts applied to the personal credit card purchases are as follows:

					Amount
			Total		Applied to
Year Ended	Miles		Expense	Amount	Personal
June 30,	Claimed	_	Account	Paid	Purchases
1999	7,800	\$	2,731	\$ 2,731	\$ 0
2000	8,769		2,607	1,934	673
2001	15,780		5,533	2,189	3,344

The amount applied to personal credit card purchases increased significantly while the amounts actually paid to Dr. Kirk by check remained fairly consistent. In addition, the validity of expense reimbursement claims appears questionable:

- The mileage reimbursement claims increased significantly during the three years. The claims showed the destination and the number of miles traveled, but provided no indication of the purpose of the trip. In addition, instances were noted in which mileage was claimed during the same time period in which the district paid for his personal gasoline.
- Meal expenses were not always supported by receipts.
- Expense reimbursements sometimes included "other expenses" totaling at least \$700 with no explanation and/or supporting documentation.

As a result, it is difficult to determine the validity of these claims. See MAR No. 3 for additional comments regarding expense reimbursements

b) Two grant writing stipends, totaling \$2,100, were applied to the personal credit card purchases. As noted at MAR No. 8, it is questionable whether credit should have been applied for writing grants.

Although the offsets ("applied to amounts") and payments indicated in the district records cover the amount of personal purchases identified, it is questionable whether all personal charges were identified. In addition, it is not clear that all of the offsets actually represented reimbursements or appropriate paybacks.

The Board did not periodically review the credit card statements; therefore, the personal charges, including cash advances, were not identified on a timely basis. In addition, because some of the expense accounts and grant writing stipends were not paid by check, but were applied to personal credit card purchases, the Board did not have an opportunity to review all the claims for propriety and reasonableness or even know these additional claims existed. The Board began making inquiries into travel expenses and the credit card was later cancelled in August 2001.

#### WE RECOMMEND the School Board:

- A. Review credit card and other charge account statements and supporting documentation, as well as invoices supporting other district expenditures, for personal purchases and seek reimbursement from Dr. Kirk for all personal items identified. The Board should ensure adequate documentation supporting the purpose of items purchased is maintained. In addition, the Board should establish a policy to limit the use of the charge accounts for business purposes.
- B. Request an accounting of all personal credit card charges and repayments from Dr. Kirk. The Board should review the credit card statements and supporting documentation to ensure all personal charges have been identified. The Board should also review the grant writing stipends and supporting documentation for the expense reimbursement claims to ensure they represent legitimate amounts due to him. Any unsubstantiated amounts should be reimbursed to the district.

#### **AUDITEE'S RESPONSE**

*The School Board indicated:* 

A. The district eliminated the use of a school credit card during the 2001-02 school year. During the July 2002 Board of Education meeting, the Board voted to secure a credit card for the purpose of **securing hotel reservations** for out-of-district staff conferences.

The central office secretaries are the only employees who may use this credit card. Per district policy, all other expenditures require an approved and signed purchase order with documentation supporting the purpose of the items purchased. Documentation is to be attached to purchase orders before payment and/or reimbursements are made. These documents are kept for a period of five years.

The Board declines to respond to seeking reimbursement from Dr. Kirk for all personal items identified due to pending litigation.

B. The Board declines to respond to this recommendation due to pending litigation against Dr. Kirk.

3. District Travel

The district incurred extensive travel expenditures during the past several years. Expenditures charged to travel accounts, including travel expenses, conference registration, and membership dues exceeded \$48,000 and \$57,000 during fiscal years 2002 and 2001, respectively.

The School Board has not established a comprehensive travel policy requiring prior approval of certain travel expenditures and outlining what types of expenses are allowed, limits on those expenses, documentation requirements, and the review process. The district implemented a policy, effective February 19, 2002, requiring all expense reimbursements be approved by the School Board, superintendent, and supervisor; however, additional improvements need to be made.

Travel expenditures include lodging, meals, gasoline, and rental cars charged to the district's credit card; reimbursements to employees for mileage, meals, lodging and other travel expenses; and direct payments to motels, rental car companies, and airlines. The following concerns relating to travel expenditures were noted:

Several travel expenditures appear questionable or personal in nature. During May 2001, the district incurred expenses exceeding \$1,400 relating to a recruiting trip to Indiana. While Dr. Kirk and two administrative employees were apparently in Indiana for a total of six nights, there was no documentation that recruiting was done on more than one day.

Also during May 2001, Dr. Kirk and an administrative employee attended a software training seminar in San Diego, California. The airfare and lodging expenses for this trip were covered by the software purchase. In addition, expenditures totaling \$978 were charged to the district's credit card for parking, rental car, gasoline, meals, and cash advances. According to credit card records, it appears a side trip was made to Tijuana, Mexico.

During February 2001, Dr. Kirk and an administrative employee attended a conference in Kansas City. The district paid for two night's lodging plus various other travel expenses totaling approximately \$990. Included in the charges identified as district charges, was a \$101 dinner including \$33 for alcohol, \$55 for additional alcohol purchases, and \$88 for room service.

While approximately \$390 and \$181 charged on the credit card statement were identified as personal charges and included in his balance due to the district for the San Diego and Kansas City trips, respectively, these total charges appear questionable. See MAR No. 2.

To ensure public funds are spent wisely, travel expenses paid by the district should be necessary and reasonable for conducting district business. In addition, meal limits should be established.

2) Travel expenditures were not always supported by adequate documentation of actual expenses incurred. Numerous credit card statements and expense reports were not supported by invoices for motels, meals, car rentals, gasoline, and other expenses paid by or reimbursed by the district.

Employee expense reports did not contain sufficient information such as the date of the trip, trip origin, destination, and purpose. As noted in MAR No. 2, Dr. Kirk's mileage claims were not adequately supported. In another example, a teacher was reimbursed \$520 for 1,679 miles during a three month period in fiscal year 2001 without sufficient documentation supporting the destination and/or purpose of several of the trips.

In addition, most of the credit card purchases did not include documentation of the purpose of the expenditure. There were numerous trips and meals, some for more than one person, with no explanation of the business purpose and the propriety of the trip; and documentation was not sufficient to adequately review extra expenses associated with another person.

Without a detailed travel expense report including documentation supporting the expenses claimed, the district cannot determine the propriety of payments made for travel expenses. In addition, should the district establish a new credit card account, procedures should be implemented to ensure charges are adequately supported.

3) Some expense reimbursement claims did include supporting documentation; however, the validity of the documentation is questionable. For example, several meal reimbursements to an administrative employee were supported by meal receipt slips in which the date had been removed or the dates on the receipt slips did not agree to the dates of the trips claimed.

Additionally, records show that Dr. Kirk applied travel expenses totaling \$290 to his personal credit card charges in March 2001. The expense claim was supported by 29 receipt slips dated in August 2000, November 2000, and January through March 2001. These receipt slips included expenditures totaling \$78 which had been previously charged to the district credit card, as well as several expenditures including alcohol with meals, snacks and drinks, newspapers, and other miscellaneous personal items.

The district should ensure documentation supporting expense reimbursements is reasonable and proper.

- 4) As noted at MAR No. 2, some instances were noted in which mileage was claimed during the same time period in which the district paid for gasoline for personal vehicles. The district should review and determine the most efficient ways of paying for travel.
- 5) Expense reimbursements are not always submitted on a timely basis. For example, one principal's expense report totaling \$459 covered a period of 12 months in fiscal year 2001. To ensure budgets can be adequately monitored, the district should require expense reports to be filed on a monthly basis.

Although the district approved an expense reimbursement approval policy in February 2002, a more comprehensive policy would help ensure that travel costs are adequately controlled, supported, and reviewed; and that only necessary and reasonable charges are paid for by the district. Implementation of such a policy would ensure the district does not incur costs for unnecessary trips. In the fiscal year 2001 audit, the district's independent CPA made recommendations to improve travel policies and procedures.

<u>WE RECOMMEND</u> the School Board establish a written travel policy outlining the types of expenses allowed, maximum amounts, and documentation, approval, and review requirements. Travel expenses should be reviewed to ensure policy requirements are met and that only necessary and reasonable charges are paid by the district. In addition, the Board should require that expense reports be filed monthly.

#### AUDITEE'S RESPONSE

*The School Board indicated:* 

Written guidelines with limits for out-of-district meal reimbursements were approved at the September 2002 Board of Education meeting. Procedures were implemented during the 2001-02 school year for the Board of Education to approve all out-of-district staff trips individually. The Board will request that all expense reports be filed each month.

#### Expenditures

4.

- A. The district has established a formal payment procedures policy; however, the policy is not always followed. The policy requires an itemized invoice and a receiving document containing the signature of an authorized employee on file before a payment can be processed. The invoice must have been received in response to an approved purchase order. In addition, the policy requires that the School Board give final approval of all bills paid, and that the listing of bills for approval be supported by documentation.
  - Numerous payments were processed without an original invoice or other adequate supporting documentation including the purpose of the expenditure. For example, during August 2000, the district paid \$6,617 to a home improvement store. The only documentation on file is a purchase order indicating the purchase was for appliances for the high school. Payment was apparently made without an invoice or other supporting documentation.

District employees indicate the district received five ranges, six microwaves, two washer and dryer units, and two dishwashers from the home improvement store. One of the ranges was apparently purchased separately from the store on the district's credit card. Based on maximum current prices for similar items, the cost of the remaining fourteen items is estimated at \$5,600, or \$1,000 less than the \$6,617 paid to the vendor.

In November 1999, Dr. Kirk requested a payment of \$1,500 be made to his personal credit card company from the district. At that time, no documentation was submitted to support this payment. Invoices supporting only \$1,396 were later submitted.

Without the invoices or supporting documentation, the district cannot ensure all purchases were received by the district.

- 2) Payments were frequently processed without a properly approved purchase order. In addition, we noted several instances in which employees were reimbursed for items without purchase orders authorizing the initial purchases.
- 3) Several invoices did not contain an indication of approval or receipt of goods or services. Accounting staff indicate they verify receipt of goods prior to processing payments; however, this verification is not always formally documented.

- 4) The district does not always make payments on a timely basis. During our review of expenditures, we noted numerous late fees and interest paid on the district's credit card statements and various charge accounts.
- Prior to fiscal year 2002, invoices and supporting documentation were not reviewed by the School Board members, including the President and Treasurer, who usually signed the district checks. The School Board approved the monthly listing of checks; however, there was no documentation that the Board reviewed invoices and supporting documentation.

As noted at MAR No. 2, numerous personal purchases were made with district funds. These expenditures were not discovered on a timely basis as a result of the inadequate procedures noted above.

To ensure the obligation was actually incurred and properly approved, all expenditures should be supported by properly approved purchase orders and original invoices containing indication that goods or services have been received. The district should also establish procedures to ensure bills are paid timely. During the fiscal year 2001 audit, the district's independent CPA made recommendations regarding approval of expenditures, and the district subsequently established additional procedures requiring purchases orders. In addition, beginning in fiscal year 2002, School Board members are provided with expenditure supporting documentation to review.

- B. During fiscal year 2001, the district had memberships in two discount purchasing organizations:
  - The district paid for memberships to SAM's Club in Columbia, Missouri, for nine district employees during fiscal year 2001. Employees could charge purchases to the district's account and/or pay for the items and be reimbursed by the district. Employees could also make personal purchases at SAM's Club with these memberships. Payment's to the SAM's Club account totaled approximately \$16,300 and \$14,600 during fiscal years 2001 and 2000, respectively.

District employees made frequent trips to this business to purchase items for the district. In addition to the membership fees, the district incurred the costs of salaries and mileage related to these trips. During fiscal year 2002, the district discontinued making frequent purchases from SAM's Club (only \$168 was spent in this fiscal year); and the membership was cancelled in January 2002.

2) The district was also a member of an Illinois based not-for-profit distributor of corporate donated items. Records indicate the district received a wide variety of items such as school and art supplies, books,

maintenance and electrical supplies, hardware and building supplies, computer equipment and supplies, flooring, light fixtures, and home furnishings. Membership and handling fees paid to this distributor in fiscal year 2001 totaled approximately \$2,800. District employees traveled to Illinois to pick up allotments from this distributor and travel expenditures associated with four trips totaled approximately \$1,100 in fiscal year 2001. In addition, the district sometimes incurred costs to rent a truck to transport the items.

According to district records, Dr. Kirk prepared the allotment requests and made several trips to pick up the items, and apparently distributed the items.

The district did not retain documentation of all items received; therefore, it is difficult to determine their value. District employees have indicated that many items received from this organization were of little or no value to the district due to poor quality or lack of need for the items; some of which are still in storage with no intended plans of use. In addition, the last allotment received by the district was stored at Dr. Kirk's house for three months before being put to use by the district. Due to dissatisfaction with this organization, the district cancelled the membership in March 2002.

Some personal purchases noted in MAR No. 2 were made from these two organizations. Additionally, based on the purchases and the extra costs incurred by the district, the savings of holding a membership in these organizations is questionable.

C. The district's current bidding procedures could be made more effective by adopting a more comprehensive policy. The current policy requires all construction projects over \$12,500 be bid as required by Section 177.086, RSMo 2000, as well as contracts for insurance. However, the policy does not require bidding for any other items and does not indicate the various bid procedures that can be used to ensure the district receives the best economical value on its purchases. The following are examples of purchases for which the district did not follow a bid process or did not retain adequate bid documentation:

<u>Item</u>	<u>Cost</u>
Six copy machines (three-year leases)	\$37,700
21 laptop computers	32,800
Bobcat and attachments	28,900
Software, training, and materials	23,000
Appliances for the high school	6,600

In addition to complying with state law where applicable, competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the district's business. A more comprehensive policy would require bidding and would identify specific bidding procedures that are required for all types and amounts of purchases. Bids could be handled by telephone quotation, sealed bids or advertised sealed bids. Different approaches may be appropriate, depending on the dollar amount of the purchase. If items or services are available from only one provider, the sole source procurement situation should be documented.

- D. Expenditures totaling approximately \$3,900 and \$710 during fiscal years 2002 and 2001, respectively, were paid from school funds for two staff barbeques, retirement gifts, Christmas gifts, and flowers for funerals, illnesses, and births. In addition, as noted at MAR No. 13, the district provides sodas to some employees and other individuals free of charge. These expenditures do not appear to be necessary for district operations or prudent uses of public funds. The district's residents have placed a fiduciary trust in their public officials to spend tax revenues in a necessary and prudent manner.
- E. As noted at MAR No. 2, the district allowed employees to purchase personal items with the district credit card or through various charge accounts. While the district was reimbursed for some of these items, in some cases the employee avoided paying sales taxes on their purchases. For example, in April 2001, an administrative employee reimbursed the district \$334 for a trampoline and enclosure purchased on the district's SAM's Club account; however, she did not pay sales taxes on these items. Employees also frequently purchased food items through the district's food service vendors without paying sales taxes.

Although the district may purchase items free of sales taxes, sales taxes must be paid on all non-business purchases. The district should discontinue allowing employees to use district charge accounts for personal purchases.

F. In May 2001, three employees were reimbursed a total of \$900 through the tuition reimbursement program without adequate documentation that they had attended a class and met the program requirements. The district reimbursement program allows for reimbursement up to \$300 per year for each certificated staff member submitting an application, report card showing a grade of A or B, and proof of payment. The required documentation was not on file for these employees.

Tuition reimbursement to employees should be supported by proof of payment as well as completion with a passing grade, as required by the policy.

#### **WE RECOMMEND** the School Board:

A. Require purchase orders be prepared for all payments and original invoices containing approval and indication of receipt of goods or services be on file before processing payments in accordance with district policy. The Board should

review and approve all expenditures and establish written policies and procedures to ensure bills are paid timely. In addition, the Board should seek reimbursement from Dr. Kirk for any amount overpaid.

- B. Evaluate the cost benefit of discount organization memberships prior to obtaining a membership and making purchases. In addition, the Board should ensure adequate documentation of items received is maintained to support the membership fees paid.
- C. Adopt a more comprehensive bid policy which requires bidding and establishes bidding requirements for purchases less than \$12,500. In addition, the Board should ensure adequate bid documentation is retained.
- D. Ensure expenditures are limited to prudent uses of public funds.
- E. Prohibit personal purchases on district accounts.
- F. Ensure all payments to employees for tuition reimbursement are supported by adequate documentation as required by district policy. The Board should request documentation supporting the payments to these staff and seek reimbursement for any unsubstantiated amounts.

#### **AUDITEE'S RESPONSE**

The School Board indicated:

- A. The new superintendent, with the help of central office personnel, is requiring that approved and signed purchase orders be obtained prior to any purchase in the district. Likewise, an approved and signed purchase order with supporting invoices is required prior to the payment of all goods and services according to Board policy. Two of the four officers of the Board review the documentation of all expenditures prior to signing the district checks. These two officials conduct this procedure two to three times per month to avoid late charges. The Board will compare their procedure with their written policy and work with the policy department of the Missouri School Board Association (MSBA) to rewrite a new policy if necessary.
  - The Board declines to respond to their intent to seek reimbursement from Dr. Kirk due to pending litigation.
- B. The district has dropped their memberships to SAM's and the not-for-profit Illinois-based distributor of corporate donated items (Naier) previously used. Approved and signed purchase orders with supporting documentation are required for all purchases according to board policy.
- C. The district is presently complying with Section 177.086 of the Missouri Revised Statutes and is presently seeking competitive bids and/or performs comparison-shopping when purchasing fixed asset items. The Board plans to discuss this issue at a later date when

reviewing all district policies. The superintendent will be responsible to see that bids over the required amounts will be sought, approved by the Board, and kept in the established file.

- D. Guidelines have been established and approved for the limited purchase of flowers for staff during bereavement and hospitalization periods. Free soft drinks for employees have been eliminated. Only the basics of meat, bread, and drinks were provided for the beginning of school barbeque. The Board of Education will examine all district paid events in the near future and develop guidelines.
- E. The new superintendent has already stopped all personal purchases using district accounts. Employees cannot purchase personal items through the school. The Board will research the need to adopt a policy to prohibit personal purchases on district accounts.
- F. Documentation has been obtained from all employees for tuition reimbursement except one. The Board of Education will make a decision as to whether they will try to obtain the documentation from this one person after litigation procedures have ended.

#### 5. Accounting System and Budgets

Numerous expenditures were coded incorrectly and transfers were made to incorrect accounts, causing inaccurate classification of the district's financial information, which possibly affects the district's state funding. In addition, the budgets were not properly amended and monitored by the district.

A. Numerous transfers were made between various accounts during the three years ended June 30, 2002. Transfers between expenditure accounts totaled between \$230,000 and \$460,000 during each of fiscal years 2002, 2001, and 2000. A significant portion of the transfers were made at the end of each year.

Many transfers were apparently made without adequate documentation of authorization or explanation of purpose. As a result, it is unclear why some of these transfers were needed, and it is difficult to evaluate the reasonableness of the transfers. School districts are allowed to make certain types of transfers and some transfers are generally needed to correct errors. Some transfers made by the district, however, appear to have been for the purpose of ensuring account budgets were not exceeded at year end. When expenditures are transferred to inappropriate accounts, financial reports do not accurately reflect actual expenditures for each account. Examples of questionable transfers are noted below:

1) The fiscal year 2000 contracted services account adjusted budget was \$67,801. Year-end transfers out totaling \$51,356 were made from the contracted services account, reducing expenditures to the amount

budgeted. In another example, during June 2000, \$9,500 was transferred from the elementary salary account; leaving total expenditures at \$555,307, the same amount as the adjusted budget. These transfers appear to have been for the purpose of agreeing the actual expenditures to the adjusted budget.

Fiscal year 2001 expenditures originally charged to the executive administration travel and dues account totaled \$14,653 and were mostly for expenditures related to Dr. Kirk's travel and memberships. During the year, \$10,658 was transferred to the recruiting and school improvement/Goals 2000 grant accounts. After all transfers were made, expenditures in the executive administration travel and dues account totaled only \$3,995. Most expenditures transferred to the recruiting account do not appear to be for recruiting. In addition, as noted at D. below, the recruiting account was not included in the approved budget. Several transfers were made after the School Board began questioning travel expenditures. By transferring significant expenditures from the executive administration travel and dues account, the significant travel expenditures were not as apparent.

Transfers should be supported by adequate documentation explaining their purposes. Transfers should be reviewed and approved to ensure reasonableness and compliance with the approved budget, and this authorization should be documented.

- B. Expenditures are not always coded to the proper accounts:
  - The district's account coding system is not in compliance with the account codes established by the Department of Elementary and Secondary Education (DESE). The current system established by the district contains numerous account codes which are not active DESE account codes or contain descriptions which do not comply with the DESE guidelines. As a result, the district is incorrectly classifying transactions. For example, the account code that the DESE requires to be used for repairs and maintenance was used for various contracted services including trash service, bottled water, copy machine rental, mailing system lease, and package delivery. Other examples of incorrect account codes used include the account code to be used for legal services is labeled election services, and the account code to be used for natural gas is labeled water.
  - 2) In addition, numerous instances were noted in which expenditures were coded to incorrect accounts. For example, a January 2001 purchase of copy paper totaling \$1,700 was coded to a maintenance account rather than to accounts for the various departments that utilized the paper.

The food service accounts are to be used to track expenditures related to the food service program. Several expenditures coded to these accounts were for items that do not appear to have been for the food service program. For example, two expenditures totaling \$1,421 for frozen turkeys provided to district employees as gifts in fiscal year 2001 were charged to a food service account.

Inaccurate tracking of food service expenditures causes additional problems for the district. Accurate food service expenditure and revenue information is necessary in determining the annual gain or loss in the food service program and in setting meal prices. According to district records, the food service department incurred a \$64,962 loss during fiscal year 2001; however, the loss is calculated based on the inaccurate food service account information. In addition, the district's food service costs cannot be compared to other school districts; and as a result, the efficiency of the school district's food service program cannot be evaluated.

Improper coding of transactions causes the actual expenditure information for the various accounts to be inaccurate. As a result, the actual account balances are unknown and cannot be accurately compared to the budgets. In addition, the Annual Secretary of the Board Report (ASBR) submitted to the DESE is prepared based on the financial information in the district's accounting system. Transactions which are misclassified on the system could cause the district's ASBR to be inaccurate. Some information included in the ASBR affects the district's state aid. During fiscal year 2002, the district received correspondence from the DESE discussing problems with the account coding system.

The district apparently did not have procedures for reviewing the various account codes and ensuring the correct codes were used. Without accurate coding and financial information, officials are unable to evaluate various district programs and make sound decisions regarding the programs. In addition, the Board may be unable to effectively monitor the district's financial condition.

Due to similar weaknesses noted during the district's annual audit for fiscal year 2001, the district's independent CPA recommended that accounting personnel receive training in the areas of transaction recording and preparation of the ASBR.

- C. The budgets prepared by the district for the three years ended June 30, 2002, failed to comply with Chapter 67 of the Missouri statutes (the budget law).
  - Historically, the school district has amended its budget at year-end to ensure expenditures do not exceed the budget. However, the district does not amend the budget before expenditures are incurred. The following table illustrates budget amendments made by the School Board during fiscal years 2002 and 2001:

Fund	Original Budget	Actual Expenditures	Amended Budget
Year Ended June 30, 2002	_	-	
General Revenue	\$ 2,092,886	2,736,587	$2,736,587^{1}$
Debt Service	284,218	285,040	$285,040^{1}$
Capital Projects	225,420	246,177	$246,177^{1}$
Year Ended June 30, 2001 General Revenue Capital Projects	2,107,445 145,205	2,537,935 2,405,969	2,537,935 <sup>2</sup> 2,405,969 <sup>2</sup>

<sup>&</sup>lt;sup>1</sup>Amended August 19, 2002

It appears the amendments are made for statutory compliance only and circumvent the intended use of the budget as a management tool. The district should amend the budget before it incurs the expenditures.

- Numerous adjustments were made to the budgets throughout each fiscal year with no Board approval. During fiscal year 2002, various district officials had increased budgeted revenues for all funds by \$229,656 and increased budgeted expenditures for all funds by \$322,786. In addition, new accounts were added to the budget without Board approval. For example, a recruitment expenses budget totaling \$15,310 and \$14,305 was added in fiscal years 2001 and 2000, respectively, without Board approval.
- Budgets did not include estimated beginning and ending balances for each fund. The budget for the year ended June 30, 2001 did not include a budget message and actual (or estimated for the year not ended) receipts and disbursements for the two preceding budget years. In addition, the budget for the year ended June 30, 2002 did not include required previous year receipts and disbursements information. This information is required by Chapter 67, RSMo 2000. Without this information, the district cannot adequately evaluate available resources and financial condition.

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 2000, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo 2000, provides that no expenditure of public monies shall be made unless it is authorized in the budget. Failure to provide adequate information in the budget document limits the Board's ability to effectively review the proposed budget for reasonableness.

<sup>&</sup>lt;sup>2</sup>Amended June 11, 2001

D. There is no documentation that the School Board and administrators routinely received budget to actual reports throughout the year. As a result, it is unclear whether the School Board periodically reviewed the district's financial status or administrators were aware of available funds or expenditure limits within their budget areas.

A complete and well-planned budget can serve as a useful management tool by establishing specific cost expectations for each area and provide a means to effectively monitor actual costs. The School Board should require that timely budget to actual comparisons are received and reviewed prior to approving expenditures.

#### **WE RECOMMEND** the School Board:

- A. Ensure transfers are supported by adequate supporting documentation and that transfers are reviewed for reasonableness, propriety, and compliance with the approved budget.
- B. Review the district's account code structure and ensure it is in compliance with DESE guidelines. The School Board should establish procedures to ensure expenditures are coded to the proper accounts and funds. In addition, the Board should determine the account coding errors made and discuss them with the DESE to determine any affect on state aid received.
- C. Ensure amendments are made to the budget prior to incurring the expenditure, and that amendments are approved by the Board. In addition, annual budgets should include complete information as required by Chapter 67, RSMo 2000.
- D. Ensure the monitoring process includes applicable district staff. In addition, the School Board should require timely budget to actual comparisons are received and reviewed prior to approving expenditures.

#### **AUDITEE'S RESPONSE**

*The School Board indicated:* 

- A. The District bookkeeper is currently writing the reason on transfer documentation and will continue to follow this procedure. The new budget system will aid with compliance with the approved budget.
- B. The bookkeeper, new superintendent, and the district's school finance supervisor have recoded all improper codes. The ASBR with the corrected codes for the 2001-02 has already been approved by the DESE.

- C. The new superintendent will obtain Board approval of any budget amendments throughout the fiscal year. The new superintendent will present an amended budget with the required budget components by the January 2003 Board meeting.
- D. Upon the completion of an amended budget, the data will be transferred to the district's bookkeeping system. The new superintendent will present budget comparisons with actual expenditures on a monthly basis as a part of the superintendent's financial report.

#### 6. State and Federal Funding

Problems have been noted in the handling of state and federal funding. These problems were noted by the DESE, as well as by our audit. The district received state and federal funding totaling approximately \$3.1 million and \$3.2 million in fiscal years 2002, and 2001, respectively. Based on the findings and additional questionable practices below; these funds, as well as funds received in prior years, have potentially been misused.

- A. The district received overpayments from the DESE due to inaccurate reporting related to the lease-purchase of a building for the Alternative School and the Safe Schools Grant. With funding from the Safe Schools Grant, the district operated an Alternative School which served students from the Osage R-II School District as well as students from three neighboring districts. We noted the following concerns:
  - 1) The district was overpaid \$213,363 in state funding due to two issues relating to the lease-purchase of the building in which the Alternative School was housed.
    - a) The district paid the lease-purchase payments from the Incidental Fund although the payments should have been paid through the Capital Projects Fund. Since the payments totaling \$88,112 were not made from the Capital Projects Fund, Section 177.088(11), RSMo 2000, requires the district to return these funds to the state.
    - b) During fiscal year 2002, the district received additional state basic formula funding through a designated levy, although this was not allowed per Section 163.011(13), RSMo 2000, which states that districts making lease-purchase payments during the fiscal year are not eligible to request the designated levy. The district had certified to the DESE that it had not entered into any lease-purchase agreements. As a result, the DESE has determined that the additional funding totaling \$125,251 must be returned to the state.

DESE stated in a letter to the district, that the total overpayments are to be returned through periodic deductions in monthly state aid payments, with total reimbursements made by June 30, 2004.

- According to DESE officials, the district received overpayments during the three years ended June 30, 2001 from the Safe Schools Grant due to inaccurate reporting of students served by the Alternative School on attendance records. Safe Schools Grant funding is based on the number of students served, and more students were apparently reported than were actually served. The DESE is currently investigating the grant and will determine any amount due to the DESE.
- B. Several problems related to the Vocational Enhancement Grant were noted.
  - 1) During fiscal year 2001, the district received approximately \$101,000 in Vocational Enhancement Grant reimbursements of which \$34,600 appears questionable.
    - a) The district used \$28,000 of this funding for the construction of the new vocational building; however, new construction is apparently not allowed according to the grant requirements.
    - b) Of the \$28,000 noted above, the district was reimbursed \$7,225 for the installation of an exhaust system for the welding department; however, an exhaust system was not installed.
    - c) Also, included in the funds used for new construction, was another \$1,125 received for office renovation. Documentation submitted to the DESE supporting the office renovation expenditures was actually an invoice from the contractor who assembled the vocational building. Office renovation was not included in the contract.
    - d) The district was reimbursed approximately \$6,600 for questionable equipment expenditures. Some vendor invoices were altered to show that particular items were purchased. For example, one invoice for 120 electric receptacles for the new vocational building, was altered to show a purchase of one sheet rock bazooka at the same price. The district had already purchased a sheet rock bazooka and claimed that purchase under the name "tapers". A printer was also purchased with these funds although there is no documentation to support how it was related to vocational programs.
  - 2) During fiscal year 1999, the district bought a bobcat and was reimbursed \$16,500 with Vocational Enhancement Grant funds. There was no

documentation it was used for instructional purposes as required by the grant. It appears this bobcat was used by the maintenance department, and was allowed to be used for personal purposes by district employees.

The district should review the activities of this grant over the past several years, discuss any discrepancies with the DESE, and return any funds that were improperly received.

- C. The district has returned \$16,800 in School to Work grant funds to the DESE. The district requested and received these funds for a Work Academy project that never existed. This discrepancy was discovered by the district's grant coordinator and the funds were returned in January 2002.
- D. The district did not maintain proper records of time worked by the Service-Learning Coordinator. The district receives a District Coordinator Grant, which requires that the district employ a person who spends at least a third of his/her time on Service-Learning, and who, therefore, is not a full time classroom teacher or administrator. The district received reimbursements for salaries and benefits, which were primarily for the coordinator, totaling approximately \$5,100 and \$8,500, during fiscal years 2002 and 2001, respectively.

During fiscal year 2001, the Service-Learning Coordinator position was held by the former Administrative Assistant to the Superintendent. Her salary in the amount of \$54,625 was covered approximately 14 percent by the Service-Learning Grant. Records supporting her work on the grant were apparently not maintained. In addition, it is questionable whether it was allowable for her to be the coordinator as her job title that year was "A+ Schools Coordinator/Central Office Administrator". Grant requirements indicate that the coordinator should not be a full time administrator. It was also noted that her job description did not include the coordinator position in her listing of duties.

Records of time worked by the coordinator are necessary to ensure compliance with the grant requirements. In addition, the district should ensure the coordinator position is not held by a full time classroom teacher or administrator.

E. The district did not retain adequate documentation supporting expenditures from the Goals 2000 Local Reform Discretionary Grant. The district received \$22,500 from the DESE during fiscal year 2001; however, documentation supporting the final expenditure report is not adequate. The district maintained a file of copies of invoices; however, it is unclear what portions of the invoices were paid with grant funds and it appears that some amounts were not supported by invoices or supporting documentation. Numerous expenditures and transfers were coded to various accounts for this grant; however, documentation in the grant file did not always support these expenditures and transfers. For example, during the month in which the final expenditure report for this grant was prepared, district credit card expenditures totaling \$2,274 were transferred to an account for this grant.

The file contained no documentation supporting the expenditures transferred to the grant accounts. The DESE administrative manual for this grant requires that separate and identifiable accounting records be maintained. The district should review these transfers, determine if the expenditures were district related and allowable per the grant requirements, and return any funds improperly received to the DESE.

In addition, the three staff paid \$900 for tuition reimbursement noted at MAR No. 4, were paid from accounts used for this grant without adequate supporting documentation. The DESE administrative manual requires adequate supporting documentation of payment to employees from the grant funds. The district should request this documentation from the employees, determine if these expenditures met grant requirements, and determine if some or all of these funds should be returned to the DESE.

F. The district made numerous transfers in and out of grant accounts. Many transfers were not supported by adequate documentation, such as the transfer noted in E. above. In addition, as noted at MAR No. 5B., we found several instances in which expenditures were incorrectly coded to accounts used to track expenditures from state and federal funding.

There were very few procedures or controls over programs and grants. Prior to fiscal year 2002, most grant applications and documents were signed by Dr. Kirk, and an administrative employee. It is unclear whether some teachers and staff who were responsible for implementing the program and grant requirements had any involvement in preparing the grant documents. In addition, although district policy requires School Board approval of all specially funded programs, grant applications were rarely approved by the School Board prior to submission to the DESE. Due to recommendations from the district's independent CPA in the fiscal year 2001 audit, the district has implemented procedures to segregate and review program and grant duties and responsibilities.

<u>WE RECOMMEND</u> the School Board review all state and federal program and grant activities from prior years and work with the DESE to resolve any discrepancies noted. In addition, the Board should establish written procedures for applying for and monitoring grants and programs, which would include Board approval of these programs.

#### **AUDITEE'S RESPONSE**

The School Board indicated:

The new superintendent has been in contact with DESE personnel concerning known discrepancies. The district has employed an auditor each year who has reviewed state and federal programs in the past. The Board will work with the MSBA in developing written procedures for applying for and monitoring grants and programs, which would include Board approval of these programs.

#### **Construction Projects**

7.

In April 1999, voters passed a bond issue totaling \$3.6 million for the purpose of building a new high school and a new vocational building, and other improvements to existing facilities of the district.

The district contracted with an architectural firm to design the high school and help oversee the construction. In November 1999, the district contracted for construction of the high school at an estimated cost of \$2,773,000. The final actual cost was approximately \$2,869,000.

The district served as the general contractor for the vocational building. The district purchased a pre-engineered metal building and accessories from a vendor in Colorado and contracted with local vendors for various services such as assembly of the building, well drilling, and installation of the heating and air conditioning systems, electrical wires, plumbing, walls, ceilings, and floors. Construction costs for the vocational building totaled over \$558,000.

Our review of these construction projects noted the following:

- A. Bids were not solicited or bid documentation was not retained for significant portions of the construction projects. In addition, change orders were not properly prepared and approved by the School Board:
  - Bids were not solicited for the pre-engineered metal building and accessories. The district paid approximately \$86,000; \$41,000 for the building and freight, and \$45,000 for accessories such as doors, windows, and guttering. In discussion with the local contractor who assembled the building, he indicated he believed the building and accessories could have been purchased at lower prices.
  - The district conducted a bid process and originally contracted with a construction company for \$226,786 to assemble the pre-engineered metal building, and construct the foundation, building connections, a fence, a water main, and drainage drop inlets. After the contract was awarded, changes to the project were made and additional services were solicited from this company without obtaining bids or preparing and approving change orders. Additional work performed by this company, costing approximately \$29,000, included excavation, rock hauling, and installation of a septic system, sewer lines, and gutters and downspouts.
  - 3) Bid documentation was not retained by the district for the high school construction. Original bids received from contractors were retained by the architect, rather than the district. Upon request, the district obtained the applicable bid documents from their architect.

4) The original contract for the construction of the high school was approximately \$2,773,000. Eleven amendments, or change orders, to the original contract totaling approximately \$96,000 were made; however, there was no documentation of Board approval for five of the change orders totaling approximately \$33,400. The change orders for various items including imported fill, modification of the home economics classroom, and addition and changes of columns and canopies were only signed by Dr. Kirk, and apparently were not approved by the Board.

Section 177.086, RSMo 2000, 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.

The Board should obtain bids or prepare change orders for all significant changes to construction contracts to ensure any additional expenditures represent valid and appropriate costs to the district. Board approval of the change orders should be documented in the Board meeting minutes.

- B. A check totaling \$11,339, received from the vocational building contractor in December 1999 as a bid guarantee, was not deposited, but kept in a safe at the district. The district has retained the check although the contractor was paid in full as of February 2001. The district should determine why the check is being held and take necessary actions to dispose of the check.
- C. The district sold the bonds through a negotiated instead of a competitive sale and did not select the bond underwriter competitively. The underwriter used by the School Board did not seek open bids assuring the most competitive rate of return for the taxpayers.

Historically, negotiated bond sales result in increased costs. Any additional interest cost could have been used to fund additional school purposes. As a result of the negotiated sale, taxpayers may have more debt to pay for less services.

While Missouri law does not require competitive bond sales or competition in selecting bond advisors, the historically lower interest costs on competitive sales suggest such sales to be in the best interest of the district.

#### **WE RECOMMEND** the School Board:

- A. Ensure bids are solicited for construction of facilities as required by state law. All bid documentation should be received and retained by the Board. In addition, change orders should be prepared and approved by the School Board and documentation of the approval should be retained.
- B. Ensure all bid guarantee payments are properly handled. The Board should determine why the check is being held and take necessary actions to dispose of the check.
- C. Pursue fair and open competition in any future bond sales.

#### **AUDITEE'S RESPONSE**

The School Board indicated:

- A. The district is presently complying with Section 177.086 of the Missouri Revised Statutes and is presently seeking competitive bids and/or performs comparison-shopping when purchasing fixed asset items. The Board plans to discuss this issue at a later date when reviewing all district policies. The superintendent will be responsible to see that bids over the required amounts will be sought and kept in the established file. Board members who were on the Board at the time of the building of the new high school and vocational building agree that change orders were discussed and approved, but proper documentation of these changes was obviously not kept with the Board minutes.
- B. The Board was unaware that the check was being retained by the district in a safe. The contractor has been contacted and the check has been returned to him.
- C. The district entered into an agreement with a well-known reputable bond underwriter. Should the district have the need to sell bonds in the future, they will weigh the pros and cons of this issue.

#### 8. Payroll and Personnel Issues

A. Employment contracts were not established or have not been retained for former district superintendents. While a copy of his employment contract for 2002-2004 was on file, earlier contracts for Dr. Kirk cannot be located. He resigned effective August 1, 2001.

In addition, the district hired an interim superintendent without establishing a written employment contract. Dr. Dale Ridder was hired as interim superintendent effective December 1, 2001. According to the Board minutes, he was to work 550 hours for a total of \$36,000 through June 2002; however, an employment contract was not entered into. The district had entered into a contract

with the previous interim superintendent, Jerry Cooper; outlining compensation, mileage and expense reimbursements allowed, working hours, and required documentation for employment. Without a contract, the duties required for the interim superintendent and compensation to be paid could be misunderstood.

The Board policy for professional staff requires that employment shall be secured through a written contract indicating compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities.

B. The district paid a percentage of Dr. Kirk's personal retirement contributions. While \$8,500, \$7,833, and \$7,590 were withheld from his salary during fiscal years 2001, 2000, and 1999, respectively; the district reimbursed him \$9,031 (106 percent), \$5,990 (76 percent), and \$2,564 (34 percent) for fiscal years 2001, 2000, and 1999, respectively. District officials were not sure how long this benefit was provided to him. There was no documentation supporting the varying percentages reimbursed and the reason for reimbursing more than 100 percent in fiscal year 2001. In addition, payroll taxes were avoided by providing this additional compensation in the form of retirement contributions rather than salary.

Section 169.030(1), RSMo 2000, requires that retirement contributions be made in equal amounts by members and employers. The district should ensure that employee contributions are deducted from paychecks and remitted to the Public School Retirement System of Missouri, as required by state law. In addition, the district should seek reimbursement for the \$531 overpaid in fiscal year 2001.

- C. Some compensation policies and agreements were not approved by the School Board.
  - There is no documentation that the Board approved the fiscal year 2002 certificated staff salary schedule. Board minutes document some discussions about salary increases; however, there is no documentation of approval of the salary schedule established to calculate the raises. Without approval of the salary schedule, it is unclear if the raises given were approved by the Board.
  - Employees receive stipends to write grant proposals. Current procedures allow compensation up to \$1,050 per grant depending on approval of the grant and the grant award amount. According to district records, employees were compensated approximately \$6,600 for writing grant proposals during fiscal year 2001. There is no documentation that this additional compensation program was approved by the Board.

Additional compensation in the form of stipends was provided to teachers for work outside their contract. Administrative employees also received these stipends, although it is unclear how the duties of grant writing and administration are outside administrative employees' regular district duties. During the two years ended June 30, 2001, Dr. Kirk was

compensated \$4,200 for work associated with the Safe Schools, Vocational Enhancement, and Goals 2000 grants. In addition, the former Administrative Assistant to the Superintendent was paid \$900 in fiscal year 2001 for work on the Service-Learning Grant; although the district claimed she spent at least one-third of her time as coordinator of the grant program.

- 3) Some teachers were paid in excess of the salary schedule. Four 2001-2002 math and science teacher contracts included extra pay ranging from \$700 to \$3,500. District officials indicated this extra pay was due to the high demand for math and science teachers. Extra compensation was not included in the salary schedule or approved by the Board.
- The Board additionally compensates the board secretary, who is a district employee, by paying the employee share of her health insurance premiums. While the Board pays a portion of the health insurance premiums for all employees, the secretary was provided with 100 percent coverage. This benefit totaled approximately \$1,200 during fiscal year 2002. An agreement was signed by the secretary and Dr. Kirk; however, there is no documentation the Board approved this arrangement.

Salary schedules should include all compensation and should be approved by the Board. Any policies involving additional compensation should also be approved by the Board. In addition, extra compensation should not be paid to employees while performing normal district duties. While the Board did approve the contracts and paychecks for these employees, there is no approval of the additional compensation noted above.

D. District officials indicate some district employees were allowed to use the School Age Child Care program free of charge; however, this benefit was not outlined in the employees' employment contracts or approved by the Board. This program cares for children before and after school, and during the summer. Fees for this program range from \$1.50 to \$2.00 per hour per child, with a maximum of \$12 per day.

While there is no documentation whether or not this benefit was received, employee benefits should be provided equitably to all district employees and should be approved by the Board.

- E. The district maintained a self-funded flexible benefit plan where employees could pay for medical and/or dependent care expenses tax-free, by having salary withheld and later reimbursed for actual expenses incurred. We noted the following concerns related to this program:
  - 1) Documentation supporting payments from the flexible benefits program bank account could not be located for Dr. Kirk. During 1998 through

2001, payments totaling \$16,775 were made to him. District accounting personnel indicate that files including reimbursement requests and supporting documentation were maintained for all participating employees; however, his files are missing.

Based on payroll withholdings and subsequent reimbursements from the flexible benefits program bank account, Dr. Kirk was overpaid \$470 during 1999. Payments during 1999 totaled \$7,120 while salary withholdings totaled only \$6,650.

The district should ensure files are properly maintained for all reimbursements. The missing files should be located and reviewed for adequate documentation to support reimbursements. In addition, the Board should seek reimbursement for the \$470 overpayment to Dr. Kirk and any unsubstantiated amounts. The district no longer operates this self-funded plan.

- F. Some compensation and fringe benefits provided to employees were not reported on the individual's W-2 form and payroll taxes were not withheld and remitted.
  - 1) As noted at MAR No. 2, during the two years ended June 30, 2001, Dr. Kirk "applied" grant writing compensation totaling \$2,100 to his personal credit card expenditures rather than receiving payment. Payroll taxes were not withheld and remitted on the additional compensation received and this additional compensation was not reported on his W-2 form.
  - 2) Interim superintendent Cooper, was reimbursed by the district for travel to and from his home. The mileage reimbursements, totaling \$937 during August through December 2001, were not reported as fringe benefits on his W-2 form.

All employee compensation and applicable fringe benefits should be reported on the employee's W-2 form and payroll taxes should be withheld and remitted, if necessary, as required by the IRS.

G. Timesheets are not maintained to support compensation to employees from outside funding sources. Four district employees receive a portion of their salary or additional compensation from the Osage Connect bank account. Osage Connect is a community-based internet program managed by the Osage County R-II School District and two other school districts.

Osage County R-II School District employees provide technical support for the system; and receive and deposit receipts, make disbursements, and maintain records for the Osage Connect bank account. These employees do not maintain time sheets documenting the amount of time worked for Osage Connect and the school district. Without such documentation, the district cannot ensure the allocation of the employees' compensation is correct. These four employees

received \$12,000 and \$4,800 during fiscal year 2002 and 2001, respectively, from Osage Connect.

The Board should require timesheets from these employees and allocate the employees' compensation based on these records.

#### **WE RECOMMEND** the School Board:

- A. Enter into written agreements with all employees that clearly detail the work to be performed and the compensation to be paid.
- B. Ensure all employee retirement contributions are made, as required by state law. In addition, the Board should seek reimbursement from Dr. Kirk for the \$531 overpayment.
- C. Ensure salary schedules, and compensation policies and agreements are approved by the Board. The salary schedule should include all teacher compensation. In addition, the Board should discontinue paying additional compensation to employees while performing normal district duties.
- D. Ensure benefits are provided equitably to all employees and approved by the Board.
- E. Attempt to obtain the missing files and review reimbursements made for adequate supporting documentation. The Board should seek reimbursement for the \$470 overpayment to Dr. Kirk and any unsubstantiated amounts.
- F. Ensure payroll taxes are withheld and remitted on all compensation. In addition, the Board should ensure all compensation and applicable fringe benefits are reported on the individuals' W-2 forms.
- G. Require timesheets from employees to document the work performed for Osage Connect and properly allocate their compensation.

#### **AUDITEE'S RESPONSE**

The School Board indicated:

- A. Written agreements with all professional employees will correspond with job descriptions in the future.
- B. All retirement payments of employees will be paid as required by law. The board declines to respond to their intent to seek reimbursement from Dr. Kirk due to pending litigation.
- C. Salary schedules and compensation policies and agreements will be approved on an annual basis. The 2001-02 salary schedule stayed the same for the 2002-03 school year.

A vote was not necessary because no change was occurring. The certified staff were given their normal step and increases for additional education hours in 2000-03.

The Board will work with the MSBA in developing written procedures for applying for and monitoring grants and programs, which will include Board approval of these programs. In addition, proper documentation of out-of-contract work for grant stipends will be required prior to stipend payment. All payment amounts to employees will be approved by the Board of Education.

- *D.* The Board will develop a policy to clearly define employee benefits.
- E. The Board declines to respond to their intent to seek reimbursement from Dr. Kirk due to pending litigation.
- F. The new superintendent will review present compensation for all employees and, with the help of central office personnel, ensure that all compensation and benefits are reported on the individuals' W-2 forms.
- G. A time log will be maintained and kept on file in the central office for the district employees who share their time between the district and Osage Connect.

## 9. Transportation Services

The school district contracts for bus transportation services. During the year ended June 30, 2002, the contractor served 12 routes traveling approximately 700 miles per day, in addition to providing transportation for other district activities such as sporting events and field trips. During this time period, payments totaling approximately \$365,000 were made to the company. We noted the following areas of concern during our review of this contract:

- A. The transportation contract has not been bid since contracting with the current transportation company over 25 years ago. The district has periodically renegotiated a contract with the company, without seeking bids from other companies. Board members indicate they have inquired of transportation services of another company; however, a bid was not received. The district did not maintain documentation of this inquiry. The current transportation contract covers school years 2001-2002 through 2003-2004. Without periodically bidding transportation services, the district cannot ensure it is receiving the best service at the lowest rate. In addition, since the transportation company serves both district and parochial students on the same buses, the district should take adequate steps to ensure it is receiving these services at the lowest possible rate.
- B. The district has not formally evaluated the costs and benefits of owning its system versus contracting for the services. Regular review and comparison of

- transportation services and costs is necessary to ensure that the district is providing transportation at the lowest possible cost.
- C. While the district increases payments to the transportation company each year, it does not retain documentation of calculations supporting the increases. Each three-year contract with the transportation company provides for annual increases in compensation, and in fiscal year 2001, payments for route transportation increased by \$6,780 (3 percent). Documentation should be retained to ensure compliance with the contract.
- D. The district does not review transportation statistics submitted to the DESE and used in calculating state transportation aid. The contractor apparently maintains records of headcounts and mileage, and provides the required information to the district which is subsequently submitted to the DESE. In the fiscal year 2001 audit, the district's independent CPA reported that the district's transportation mileage records were not maintained to accurately disclose odometer mileage for eligible and ineligible mileage. If inaccurate transportation statistics are submitted to the DESE, the district could receive more or less funding than they are entitled to receive. To ensure the amount of state transportation aid received is accurate, the district should establish procedures to review the transportation company's procedures for reporting transportation statistics and verify the accuracy of the information submitted to the DESE.
- E. Adequate procedures are not in place to monitor transportation costs relating to activity trips. Based on district records, the transportation company was paid approximately \$57,000 for activity trips during the year ended June 30, 2002.
  - 1) Charges for these trips are not adequately reviewed and approved by the district employee authorizing the trip. To ensure the district is properly billed for activity trips, procedures should be established to review and approve charges for these trips.
  - 2) Formal bus requisition procedures have not been established. Currently, district employees can request a bus directly from the transportation company without documentation of supervisor approval. Procedures should be established to require supervisor approval of activity trips.
- F. The last two transportation contracts were signed by the Board after the contract period began. The contract for July 1, 1998 to June 30, 2001 was signed by Board members on September 1, 1998, while the contract for July 1, 2001 to June 30, 2004 was signed on August 20, 2001. To ensure transportation services are secured, the district should enter into contracts prior to the beginning of the school year.

#### **WE RECOMMEND** the School Board:

- A. Regularly solicit competitive bids for the transportation contract.
- B. Perform a cost analysis of owning versus contracting transportation services and identify the system with the best cost-benefit for the district.
- C. Maintain documentation supporting transportation company compensation increases.
- D. Establish procedures to ensure transportation information submitted to the DESE is accurate.
- E. Establish procedures to ensure billings for non-route transportation are adequate. In addition, the School Board should establish formal bus requisition procedures.
- F. Ensure contracts are approved and signed in a timely fashion.

#### **AUDITEE'S RESPONSE**

The School Board indicated:

- A. The district is in the second year of a three-year contract with their transportation company. The district will solicit transportation bids prior to the 2004-05 school year.
- *B. The district will investigate all possible avenues of transportation.*
- C. The district's transportation contract is very clear as to the calculation of the annual increases. The superintendent annually verifies with the bookkeeper the increases before the first payment of the fiscal year. The calculation of the increases will be documented in the contract folder.
- D. The district will request that copies of all transportation statistics be housed in the central office. Odometer mileage for eligible and ineligible mileage will be required.
- E. The new superintendent, with the aid of the bookkeeper, monitors billings for non-route transportation. These statements are also studied by two of the four officers of the Board before payments are made. All staff have been informed by the superintendent that no buses will be ordered without prior approval and a signed purchase order.
- *F. Future contracts will be finalized prior to the beginning of the school year.*

A. During fiscal years 2000 and 2001, the Board renewed the district agreement for audit services with the current CPA firm, rather than conducting a selection process. The most recent selection process for audit services covered the three years ended June 30, 1999. In addition, as of June 2002, the district had not conducted a selection process for the 2001-2002 school year audit.

Selection processes are necessary to ensure the district is receiving the best services and rates. The process should include advertising and soliciting proposals and evaluating these proposals for technical experience, capacity and capability of performing the work, past record of performance, and the firm's proximity to and familiarity with the school district.

B. According to available records, the district has not solicited bids for banking services since 1998. That bid process covered the 1998-1999 and 1999-2000 school years and the bidder with the highest interest rate was selected.

The district should periodically conduct a competitive bid process for banking services to ensure it is receiving the best services and rates. Documentation of this process should be retained.

- C. The district does not always enter into written contracts defining services to be provided and benefits to be received. We noted the following concerns regarding contracts:
  - The district did not enter into written agreements for legal services. During fiscal year 2002, the district retained legal services from a new attorney, replacing the attorney they had used for several years. A written agreement was not established with either of the attorneys. Payments to the current attorney for services rendered during the 2001-2002 school year totaled approximately \$22,900. Payments to the previous attorney totaled \$1,720 and \$3,940 in fiscal years 2002 and 2001, respectively.
  - 2) The district hired an individual from September 2001 to June 2002 to serve as the district's grant coordinator, without entering into a written agreement with her company. Payments made to the company totaled approximately \$14,900 during that period.

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 2000, requires contracts for political subdivisions to be in writing.

D. The district does not require the current attorney's office to submit detailed bills indicating the number of hours and the hourly rate charged to the district. Without this documentation, the district cannot ensure the validity and propriety of the amount billed.

### **WE RECOMMEND** the School Board:

- A. Periodically solicit proposals for audit services.
- B. Consider seeking proposals or competitively bidding the district's depository banking services on a periodic basis and maintain documentation of this bid process.
- C. Enter into written contracts with all applicable parties which clearly define the work to be performed and the compensation to be paid or benefits to be received.
- D. Require adequate documentation to support the attorney billings including number of hours and cost per hour.

### **AUDITEE'S RESPONSE**

The School Board indicated:

- A. The district sent letters to eight approved auditors in June 2002 requesting bids for the 2002-03 school year. The Board entertained the two bids returned at the August 2002 meeting and selected a new auditor for a period of two years.
- B. Competitive bids for the district's depository banking service will be conducted in April 2003.
- C. The district will enter into written contracts with all applicable parties which clearly define work to be performed and the compensation to be paid or benefits to be received effective immediately.
- D. Attorney billings will include the number of hours and cost per hour before future bills will be paid.

# 11. Cellular Telephones

While the district does not have a formal written policy for the use of cellular telephones, employees were allowed to use the phones for personal calls. The district paid approximately \$1,800 and \$2,600 to their cellular phone service provider for five cellular phones during fiscal years 2002 and 2001, respectively. Two of the phones were issued to Dr. Kirk, and the three other phones were issued to other district employees.

Individuals were provided with various types of service plans ranging from \$28 to \$110 per month.

The district did not require individuals assigned phones to reimburse the district for personal calls and apparently numerous personal calls to home and relatives were paid for by the district.

The March 16, 2001 cellular phone invoice totaled \$820, of which total charges for the phones issued to Dr. Kirk were \$682. He used 2,270 airtime minutes, or an average of 81 minutes per day during this billing period, including weekends.

A policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the district authorizes the phone to be used for personal purposes. Procedures should be implemented to monitor cellular phone usage and review invoices for propriety. During fiscal year 2002, the district reduced the number of cellular phones to three.

<u>WE RECOMMEND</u> the School Board establish a policy for cellular phone usage stating the individuals authorized to be assigned a phone, and allowable use of the phones. All billings should be reviewed for reasonableness and the Board should ensure cellular phones are used only for district business. In addition, the prior years' bills should be reviewed and reimbursement requested for any personal calls.

### **AUDITEE'S RESPONSE**

*The School Board indicated:* 

The Board will develop a policy for cellular telephone usage. Two of the four officers of the Board review all statements before payment. The Board declines to respond to seeking reimbursement from employees for cellular telephone usage due to pending litigation.

# 12. Board Meeting Minutes

A. Both open and closed meeting minutes do not always document all business conducted during the Board meetings. For example, the current contract with the transportation company was signed by the Board president and secretary in August 2001; however, minutes do not document an official vote or approval of this contract. In addition, minutes for several closed meetings state that personnel issues were discussed, with no additional record of the issues discussed.

Section 610.020, RSMo 2000, states that the minutes shall include the date, time, place, members present, members absent, and a record of votes taken. Minutes serve as the only official permanent public record of decisions made by the Board.

Therefore, it is imperative that the minutes be prepared to clearly document all business conducted.

B. Open meeting minutes do not always adequately document the specific reasons for closing the meeting and actions taken by the Board in closed meetings. Open meeting minutes usually cite the specific sections of the state law which allow for a closed meeting; however, the issues discussed in the closed meetings do not always relate to the issues in the cited statute sections.

In addition, it is questionable whether the district complied with the provisions of the Sunshine Law when discussing some items in closed session. These included pending grant requests, transportation of non-resident students, the high school sewer system, truck bids, and a software purchase. The Board did not document how discussing these issues during closed sessions complied with state law.

Section 610.022, RSMo 2000, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. In addition, Section 610.021, RSMo 2000, allows the Board to discuss certain subjects in closed meetings, including litigation, real estate transaction, bid specification, and sealed bids, personnel matters, and confidential or privileged communications with auditors. The Board should restrict the discussion in closed sessions to the specific topics listed in Chapter 610 of the state statutes.

### **WE RECOMMEND** the School Board:

- A. Ensure minutes clearly document all business conducted.
- B. Ensure minutes document the vote to go into closed session, state the reasons for going into closed session and publicly disclose the final disposition of applicable matters discussed in closed session. In addition, the Board should ensure closed meetings are conducted according to state law.

### **AUDITEE'S RESPONSE**

The School Board indicated:

- A. The Board will ensure with approval of the minutes that the appropriate components are included in the minutes according to Section 610.020, RSMo 2000.
- B. The Board of Education strives to follow the Sunshine Law on closed session meetings. Documentation is recorded on the agendas and minutes.

### **Receipt Procedures**

13.

- A. The secretaries at each school receive monies for breakfast, lunch, student activities, and other miscellaneous items, and transmit these monies to the administration secretary who makes the bank deposits. Our review noted the following concerns relating to receipts:
  - Monies collected by the district, which include a significant amount of cash, are not transmitted to the administration secretary on a timely basis. During April 2002, only two transmittals (\$4,377 and \$269) were received from the elementary school, six transmittals were received from the high school (ranging from \$1,417 to \$4,136), and two transmittals (\$2,734 and \$2,134) were received from the daycare. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be transmitted and deposited daily or when accumulated receipts exceed \$100.
  - 2) Checks and money orders are not restrictively endorsed immediately upon receipt, but instead when transmitted to the administration secretary. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- B. According to district records, the district incurred a loss of \$2,600 from the soda machines operated throughout the various school buildings during fiscal year 2002. Some district employees and others receive sodas free of charge, which apparently contributes to the loss.

District employees and students are responsible for replenishing the machines and emptying the change from the machines on a periodic basis. These monies are turned over to designated individuals in their buildings who count and transmit the monies to the central office. An independent party does not periodically reconcile the amount of soda purchased and remaining in inventory with receipts from the sale of the soda.

The district should investigate the loss and review any activities causing the district to lose money from the operation of soda machines. Procedures should be developed to ensure adequate controls are in place to ensure the profitability of the soda machines.

#### **WE RECOMMEND** the School Board:

A. Require the school secretaries to transmit receipts daily to the administration secretary or when accumulated receipts exceed \$100, and restrictively endorse all checks and money orders immediately upon receipt.

B. Establish procedures to ensure the district does not incur a loss from the soda machines. These procedures should include independent reconciliations of soda machine monies received to items purchased and remaining in inventory, and investigation of any significant discrepancies. In addition, the Board should review the practice of providing sodas free of charge.

#### **AUDITEE'S RESPONSE**

The School Board indicated:

- A. The district has purchased "for deposit only" stamps for each secretary who receives checks and/or money orders. They are stamped upon receipt. The secretaries have been advised by their respective principals to bring accumulated receipts that exceed \$100 to the central office immediately.
- B. The district has entered into a new contract with a soft drink distributor. The new agreement is for "full service" which means that the vendor will fill the machines, collect the money, and send the profits to the school via a check monthly. The exception is for the ale carte juices and waters sold in the cafeterias. The food service manager is responsible for inventory of these products. No one is allowed sodas free of charge.

## 14. General Fixed Assets

A. The district does not maintain adequate records accounting for all district property. Property records are necessary to secure better internal controls over assets and provide a basis for determining insurance coverage. The district should establish an adequate property listing that includes all property items valued at or over an amount determined by the board. The listing should include a description of the item, the location, the estimated useful life, and the original cost or estimated historical cost if the original cost is not available. In addition, all items should be identified as school district property with a tag or similar device.

This condition was noted by the district's independent CPA in the fiscal year 2001 and 2000 audits.

B. The district's fixed asset procedures are not adequate. For most departments, the district requires employees to prepare an annual inventory listing of their areas; however, a supervisory review of any differences from year to year is not performed and documented by all departments. A supervisory review with explanations noted of any changes is necessary to adequately ensure all fixed assets are accounted for properly. In addition, the district does not reconcile general fixed asset purchases to additions to the annual inventory.

Personal property items purchased by Dr. Kirk, as discussed in MAR No. 2, may have been identified if the district had adequate fixed asset procedures and review procedures in place.

C. The district's written procedures regarding disposal of fixed assets are not adequate and are not always adhered to by the district. The procedures require that school property no longer required for use by the district be sold or leased. Currently, the district will move items no longer needed to a storage facility and take these items off the inventory list. No list is maintained of the stored unused items and these items remain in storage indefinitely. The procedures do not require that the district maintain a listing of the items in storage.

#### **WE RECOMMEND** the School Board:

- A. Establish property records for fixed assets that record all pertinent information for assets. In addition, the Board should properly tag or otherwise identify all district property.
- B. Require a supervisory review and explanation of all differences noted in the annual inventory. Procedures could include spot checking or otherwise verifying inventory information provided by the various employees and periodically reconciling general fixed asset purchases to the general fixed asset additions.
- C. Establish adequate procedures for the disposal of fixed assets and adhere to these procedures.

## <u>AUDITEE'S RESPONSE</u>

*The School Board indicated:* 

- A&B. The district has not started the process of fixed asset inventories to comply with GASB 34. The superintendent will be visiting with our new auditor in October 2002 about this new requirement and will make a recommendation to the Board in November 2002 as to how to proceed. A system of properly tagging or identifying all district property will be established in the near future.
- C. A policy will be developed with the assistance of the MSBA dealing with procedures for the disposal of fixed assets.

This report is intended for the information of the management of the Osage County R-II School District and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

## OSAGE COUNTY R-II SCHOOL DISTRICT HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Osage County R-II School District is located in the central area of Osage County and a small portion of western Gasconade County. The campus of three schools is located in Linn, Missouri, approximately 23 miles east of Jefferson City, on Highway 50.

The district operates a high school (9-12), a middle school (6-8), and an elementary school (K-5). The district operated an alternative school (6-12) prior to the 2002-2003 school year. In addition, the district operates an early childhood special education program (ages 3-4) and a daycare (ages infant 5). Enrollment was approximately 673 for the 2000-2001 school year. The district employed approximately 116 full and part-time employees, including 6 administrators, 60 teachers, and 50 support staff.

The Osage County R-II School District has been classified under the Missouri School Improvement Program as "Accredited With Distinction" by the Missouri Department Elementary and Secondary Education.

An elected board acts as the policy-making body for the district's operations. The board's seven members serve three-year terms without compensation. Members of the board at June 30, 2001, and their current terms of office are:

Name and Position	Term Expires	
Dennis G. Hopke, President (1) (2)	April 2002	
John Stowe, Vice President (2) (3)	April 2002	
Ken Franken, Secretary	April 2003	
Bernell Keilholz, Treasurer (4)	April 2004	
Gary Anderson, Member	April 2003	
Mike Linhardt, Member (2)	April 2002	
Kent Parrish, Member (5)	April 2004	

- (1) Kent Parrish was elected President in April 2002, replacing Dennis G. Hopke.
- (2) Mary Backes, James Krueger, and Dale Sallin were elected to the board in April 2002, replacing Dennis G. Hopke, John Stowe, and Mike Linhardt.
- (3) Dale Sallin was elected Vice President in April 2002, replacing John Stowe.
- (4) Elected Treasurer in April 2001, replacing Leroy Nolting.
- (5) Elected to the board in April 2001, replacing Leroy Nolting.

Other Principal Officials	Annual Compensation
Dr. Brian Kirk, Superintendent (1)	\$ 76,267
Kyle Kruse, High School Principal	56,148
Dr. Steve Gruenert, Middle School Principal (2)	50,189
Sue Tyler, Elementary School Principal	49,207
Barry Hoskins, Alternative School Director (3)	25,234
Carol Scherf, A+ Schools Coordinator/Central	
Office Administrator (4)	54,625

- (1) Resigned as Superintendent effective August 1, 2001. Jerry R. Cooper served as Interim Superintendent from August until December 2001, and Dr. Dale Ridder served as Interim Superintendent from December 2001 to June 2002. Nancy Gillespie became Superintendent in July 2002.
- (2) Replaced by Kevin Goddard in July 2001.
- (3) Replaced by Jo Ellen Hicks who held this position in addition to the Special Education Director position, from July 2001 to June 2002. Jo Ellen Hicks was appointed to new administrative position, Special Programs Coordinator in July 2002.
- (4) Appointed to new position, Administrative Assistant to Superintendent, in July 2001. Resigned from this position effective October 16, 2001.

Assessed valuations and tax rates for the tax year ending December 31, 2001 and 2000, were as follows:

	2001	2000
Assessed Valuation	\$ 38,892,298	36,822,024
Tax Rates:		
Incidental	\$ 1.6500	1.7256
Teachers	1.1000	1.1000
Debt Service	.3900	.3900
Capital Projects	.0577	.0600
Total	\$ 3.1977	3.2756

\* \* \* \* \*