



Susan Montee, JD, CPA
Missouri State Auditor

Santa Fe R-X School District



March 2010
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Office of the
Missouri State Auditor
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The following findings were included in our audit report on the Santa Fe R-X School District.

The district spent more than it received during the fiscal year ended June 30, 2009, resulting in a decline of the district's ending fund balance in the Combined Operating Funds (General Fund and Special Revenue Fund). As a result, the district is in the Department of Education and Secondary Education (DESE) "financially stressed" classification. This significant decrease in the district's combined operating fund balance appears to be primarily caused by overspending of the original budget. The original budget was overspent by over \$200,000 during the year ended June 30, 2009, but some of this overspending was caused by unanticipated costs that arose during the year. Some temporary spending freezes were put in place in December 2008, but no significant budget cuts were proposed by the former Superintendent to keep the district within budget. We also identified weaknesses in the school district's budgeting process and in the procedures used for monitoring the budget and preparing amendments.

Bank reconciliations of the various accounts held by the district are not properly performed. The school district does not ensure all transactions are properly entered into the financial accounting system and properly cleared during the reconciliation process. Prior to May 31, 2009, documentation of operating account reconciliations were not retained. Accounting duties are not segregated, adequate oversight procedures are not performed by an independent person, and receipting procedures need improvement. Prenumbered receipt slips are not issued, nor is a cash control ledger maintained, by all personnel collecting monies. The method of payment is not recorded and reconciled to the composition of deposits. Some funds collected are not deposited timely and checks and money orders received are not restrictively endorsed until deposited. Adequate procedures have not been established to handle gate and concession receipts collected at athletic events, which totaled over \$68,000 during the 2 years ended June 30, 2009, most of which is collected in cash. Petty cash records for the high school petty cash fund have not been maintained adequately.

Supporting documentation related to some school district disbursements was either unavailable or was insufficiently detailed, including a significant number of credit card transactions. Adequate records were not maintained to support the distribution of gift cards totaling \$7,000 to students with perfect attendance at summer school in 2007. In addition, the district's current bidding procedures could be made more effective by adopting a more comprehensive policy. Examples of purchases for which the district did not follow a bid process, or did not retain adequate bid documentation, include relocation of a gas pipe (\$11,550) and fuel (\$33,000).

YELLOW SHEET

The district has not bid transportation services in recent years and has not adequately monitored contract terms with transportation contractors. The district expended approximately \$300,000 during the 2 years ended June 30, 2009, for district transportation and has contracted with the same three bus providers for many years. Contracts with bus providers are not monitored closely for compliance and bus providers are not always treated equitably even though contract terms are the same. Fuel purchase provisions contained in the contracts with transportation providers need to be reviewed for reasonableness, and it is unclear how the fuel provision amount was calculated. One contractor was not required to reimburse the school in accordance with contract terms for fuel/parts costs incurred. In addition, this contractor's payment amounts were changed during the term of his contract, while approval for this decision was not documented.

The audit report also includes concerns related to payroll controls and procedures, and meeting minutes.

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SANTA FE R-X SCHOOL DISTRICT

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STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Board of Education
Santa Fe R-X School District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Santa Fe R-X School District. The school district engaged Lockridge, Constant & Conrad, LLC, Certified Public Accountants (CPAs), to audit the district's financial statements for the years ended June 30, 2009 and 2008. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended June 30, 2008, since the year ended June 30, 2009 audit had not been completed at the time of our engagement. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 2009. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Evaluate the school district's internal controls over significant management and financial functions.
3. Evaluate the school district's compliance with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the school district, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance

with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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

The accompanying 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 our audit of the school district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Santa Fe R-X School District.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CIA, CGFM
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

SANTA FE R-X SCHOOL DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Financial Condition and Budgets

- A. The district spent more than it received during the year ended June 30, 2009, resulting in a decline of the district's ending fund balance in the Combined Operating Funds (General Fund and Special Revenue Fund).

<u>Combined Operating Funds *</u>	<u>Amount</u>
Receipts	\$ 4,058,997
Disbursements	<u>4,282,375</u>
Receipts over(under) disbursements	<u>-223,378</u>
Beginning balance	<u>322,600</u>
Ending balance **	<u>\$ 99,222</u>
Ending balance as a percentage of disbursements	0.02317

* This information was obtained from district's Annual Secretary of the Board Report (ASBR)

** Includes \$3,016 of restricted fund balance according to the ASBR report.

As a result of the decline in the district's combined operating fund balance, the district is in the Department of Education and Secondary Education (DESE) "financially stressed" classification. Section 161.520, RSMo, considers a district to be "financially stressed" if the year end balance of the Combined Operating Funds is less than 3 percent of disbursements or negative.

The significant decrease in the district's combined operating fund balance appears to be primarily caused by overspending the original budget. The original budget for the Combined Operating Funds was overspent by over \$200,000 during the year ended June 30, 2009. At least a portion of the overspending was caused by unanticipated costs that arose during the year, including a utility billing problem identified during the year in question (\$33,000 in additional cost) and repairs and maintenance issues at the high school (\$20,000). While some temporary spending freezes were put in place in December 2008, these were short-term and no significant budget cuts were proposed by the former Superintendent to keep district spending within budget.

This district has historically maintained a high fund balance, which exceeded 20 percent of annual disbursements regularly prior to the 2004/2005 school year, when a major construction project was completed which required the district to

dip into its reserves. The district's fund balance fell to approximately 8 percent of annual disbursements after this project and remained at that level until 2008/2009. The budget summary included in the 2008/2009 district budget indicated the district's goal was to replenish the Combined Operating Fund balance to 15 percent of annual disbursements, but the budget prepared by the former Superintendent projected the ending cash balance for the Combined Operating Funds to decrease by approximately \$90,000. Significant budget cuts have not been made by the district since the decline in fund balance several years ago and no increases in the general tax levy were requested to bring the operating cash balance back to previous levels.

The minutes of board meetings do not document any significant discussions regarding the financial position of the district. The former Superintendent indicated he did notify the Board of concerns throughout the year but suggested no significant budget cuts because he did not feel the situation was as dire as it appeared.

It appears the district is facing serious financial problems and action is needed to increase receipts or reduce disbursements. The Board should closely monitor budgeted disbursements. In addition, although the budget process provides annual financial planning, the School Board needs long-term planning to ensure the school district has adequate funding to continue operations.

- B. Weaknesses were identified in the school district's budgeting process and in the procedures used for monitoring the budget and preparing amendments. The former Superintendent prepared the annual budget and presented it to the Board in June each year for approval. While the former Superintendent appears to have monitored budget to actual activity throughout the year and had identified a shortfall as early as December 2008, significant spending cuts were not proposed to keep the district's spending within budgetary limits. While it appears the former Superintendent did provide some financial data documenting this situation to the Board, he did not prepare and present for approval formal budget amendments setting forth reasons for the overspending of the district's budget. The district's procedure is to prepare an amendment in late June each year to adjust the budgeted receipts and disbursements to actual, which defeats the purpose of preparing an accurate and complete budget and then keeping spending within those limits.

Considering the significant decline in the Combined Operating Funds balance during the 2008/2009 school year, it appears that significant discussions should have occurred between the former Superintendent and the Board throughout the year to determine what actions should be taken to keep spending within budgetary limits. There is no documentation in the Board minutes during the year that significant budgetary discussion were held. The General Fund and Special Revenue Fund original budgets were overspent by approximately \$200,000 during the 2008/2009 school year.

In light of the district's declining financial position, it is imperative the district prepare accurate budget estimates on a timely basis and for the Board to closely monitor actual receipts and disbursements. If necessary, budget amendments should be adopted in a timely manner.

WE RECOMMEND the School Board:

- A. Continue to monitor the district's financial position and take all necessary steps to improve the financial condition of the district.
- B. Increase monitoring of budget to actual receipt and disbursement activity and ensure amendments to the budget are identified and approved in a timely manner.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *As fiscal year (FY09) was closed and initial data were submitted in preparation for the August, 2009 ASBR reporting cycle, the current administration notified the board and contacted the Missouri Department of Elementary and Secondary Education (DESE) regarding the financial condition of the district. Based on the district's report, Santa Fe R-X received official designation from DESE as being financially stressed. In addition to the unanticipated costs listed, other significant expenditures included increased tuition and utilization of the vocational technical program and increased substitute costs, for example. The district realizes the importance of monitoring expenditures in relation to both planned and unanticipated costs and also in relation to revenue losses. As a result of receiving the financially stressed designation, the district was required to file a financial plan with the state to provide assurances of the district's ability to complete the school year while protecting the educational integrity of the school. Since that plan was filed in December, 2009, the district has lost nearly \$50,000 in budgeted revenues. While a spending freeze has been put into place, the only significant means of controlling expenditures to accommodate the loss in revenue would be in areas of staff reduction. The time of year a district typically discovers shortfalls in revenue and the impact on operational balances, action needed to address those concerns often have a far greater impact on the educational environment of the current school year. While the district acknowledges spending freezes and cuts may be necessary, maintaining stability with what is best for students will continue to be a factor in such decision-making processes. The district is following the example provided by DESE as outlined in the financial stress reporting processes to more closely monitor projected ending fund balances.*

The district does have a financial plan in place which moves the district toward financial solvency and will provide the stability necessary for current and future economic concerns. The plan is based on cost-containment measures and increased local revenues.

- B. *The district supports the importance of monitoring the budget to include projecting the impact of unexpected losses in revenue and increased expenditures. The district currently follows the financial guidelines and statutes regarding school budgeting procedures. The district also acknowledges the importance of the management of public funds while balancing the needs of students. The district agrees with the audit's suggestions for monitoring actual receipt and disbursement activity. The current administration has greatly improved the capacity to maintain accurate information through more efficient utilization of the district's financial accounting software.*

2. Accounting Controls and Procedures
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Bank reconciliation procedures need improvement and documentation related to reconciliations should be retained. Adequate oversight of accounting functions and records are not provided by an independent person and procedures for handling and processing receipts and handling petty cash need improvement.

- A. Bank reconciliations of the various accounts held by the district are not properly performed. The school district does not ensure all transactions are properly entered into the financial accounting system and properly cleared during the reconciliation process. Reconciliations are done on the computer and the bank balance used in the reconciliation is not entered from the statement, but rather is input automatically from the accounting system. For the May 31, 2009, operating account reconciliation, this computed balance was \$3,114 more than the statement balance. This difference was caused by a duplicate payment of \$3,149 made in error which was only entered into the accounting system once, and another error of \$35. Prior to the May 31, 2009, operating account reconciliation, documentation of the reconciliation was not adequately maintained by the school district.

Complete reconciliations between the bank activity and accounting records are necessary to ensure all monies have been accounted for and recorded properly. Any discrepancies noted should be investigated and resolved on a timely basis. Bank reconciliations are essential for monitoring account balances, ensuring sufficient funds are available for disbursements, and identifying possible bank or book errors. Documentation to support reconciling items such as outstanding deposits and check lists should be retained.

- B. Accounting duties are not segregated and adequate oversight procedures are not performed by an independent person. The office manager is primarily responsible for the bookkeeping duties of the school district. School secretaries and the

cafeteria supervisor receive monies from students and teachers and transmit the monies to the office manager, who has the responsibility of recording all transactions in the school district's accounting system, depositing funds, preparing checks, and preparing month end bank reconciliations. Supervisory or independent reviews of the various functions performed by the office manager are not performed.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, at a minimum, periodic supervisory or independent reviews of the records should be performed and documented.

- C. Receipting procedures need improvement. Gate/concession proceeds, payments from students for various activities, food service payments, and other miscellaneous activities are received by teachers, school secretaries, the cafeteria supervisor, and the office manager. The district has not developed procedures to ensure all monies are properly recorded in the accounting system and deposited.
- Prenumbered receipt slips are not issued for monies received by personnel nor is a record of original receipt, such as a cash receipt ledger, maintained by all personnel collecting monies. A numerical transaction number is assigned to each item posted to the accounting system, but with no receipt slips or cash receipt ledger, there is less assurance all items are posted to the system properly. Cash receipt ledgers were maintained by the elementary and high school secretaries, but the high school secretary discontinued using the ledger in October 2008 because the high school secretary and the office manager were having trouble reconciling the amounts received to the accounting system. No comparisons of receipts entered in the ledger maintained by the elementary secretary and receipts entered into the accounting records maintained by the office manager are performed. Amounts received by teachers are simply turned over to the secretaries when received.
 - The method of payment (i.e., cash, check, or money order) is not recorded on the cash receipt ledgers or posted to the accounting system, resulting in the composition of receipts not being reconciled to the composition of deposits.
 - Checks and money orders received are not restrictively endorsed until deposited.
 - Receipts are not always deposited in a timely manner. Monies received for a sophomore activity were on hand for at least two weeks based on the dates on checks when we counted cash on May 12, 2009. Checks on hand were dated between April 9 and April 26, 2009. Because receipt slips

were not issued, it is difficult to determine exactly when these items were received by the district. The monies were deposited May 12, 2009.

Without proper receipting procedures, the district cannot ensure all monies received are deposited. To adequately account for all receipts, official prenumbered receipt slips should be issued in numerical order for all monies received or some other record of original receipt should be maintained, amounts receipted or posted to a cash receipt ledger and the composition of receipts should be compared to amounts posted to the accounting system and bank deposit records, deposits should be made on a timely basis, and checks should be endorsed immediately upon receipt.

- D. Adequate procedures have not been established for gate and concession receipts collected at athletic events. Collections related to such events totaled over \$68,000 during the 2 years ended June 30, 2009, most of which is collected in cash. Admission to these events is collected at the door. Prenumbered tickets are not issued to account for the number of people charged admission to the athletic events. Consequently, there is no procedure to reconcile paid admissions to cash received and remitted for deposit. For concessions, a money box form is filled out documenting change funds received by the volunteers running the concessions, but procedures do not exist to assess the reasonableness of amounts turned in for deposit. In addition, we identified evidence that cash payments from gate/concession receipts were paid to individuals for work performed in at least two instances during the year ended June 30, 2009. We were unable to determine if additional cash payments were made because the money box forms were not retained for the year ended June 30, 2008.

To ensure all gate receipts are accounted for properly, the district should issue prenumbered tickets for gate admissions and reconcile tickets issued to monies remitted for deposit. Procedures should be developed to assess the reasonableness of concession receipts. In addition, cash payments from gate/concession receipts should be discontinued, and money box forms should be properly retained to support gate/concession receipts.

- E. Petty cash records for the high school petty cash fund are not maintained adequately. As of May 12, 2009, the last entry to the high school petty cash records had been made on June 23, 2008, by the former high school secretary. In 2009, the high school disbursed over \$200 from petty cash and requested reimbursement for disbursements from the office manager. The office manager reimbursed the petty cash fund without obtaining documentation of the disbursements made by the high school secretary. In addition, the amount reimbursed did not equal the amount disbursed, therefore, the petty cash was not maintained on an imprest basis.

Good internal controls require the petty cash fund be set at an established amount and reimbursed when it has been expended. An imprest basis petty cash fund would improve accountability over petty cash monies. A complete ledger should be maintained and reconciled to cash on hand and purchase invoices submitted.

WE RECOMMEND the School Board:

- A. Perform monthly bank reconciliations and ensure bank and fund ledger information agree and all supporting documentation for the bank reconciliation is retained.
- B. Segregate accounting duties to the extent possible and ensure independent reviews of the accounting records are performed and documented.
- C. Issue prenumbered receipt slips for monies received or ensure an original record of receipt is maintained, and ensure the method of payment is noted and checks and money orders are restrictively endorsed. In addition, deposits should be made timely and reconciled to the composition of receipts.
- D. Establish adequate procedures to account for gate/concession receipts related to district events and discontinue the practice of paying gate/concession workers from cash receipts. In addition, money box forms should be retained to document amounts collected.
- E. Maintain the petty cash fund on an imprest basis and maintain complete ledgers to account for all petty cash receipts and disbursements.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The district agrees with the audit that bank reconciliation procedures needed improvement. The procedures have been updated regarding the retention of reconciliation documentation findings. The district has implemented an updated, computerized accounting system last summer that assists with accurate financial statements, including managing outstanding checks, current balances, and efficient monitoring of district funds. The district is reviewing options for independent reviews, and more oversight for petty cash transactions, cash receipts, and disbursements.*
- B. *Options for the segregating of duties are still being reviewed based on utilization of duties of limited personnel. Periodic supervisory reviews of records will continue with adequate documentation maintained.*

- C. *The district is reviewing options for receipt processing. Receipting and depositing monies efficiently and timely is important in current district accounting and management procedures.*
- D. *Procedures to improve oversight for event receipts are being considered.*
- E. *Procedures for handling petty cash to include better internal controls and limited usage are being reviewed. Documentation procedures have been established to address the audit concerns regarding disbursements and reimbursements.*

3. School District Disbursements

Some disbursements were not supported by adequate documentation or invoices, including a significant amount of credit card purchases. No documentation existed to support the distribution of gift cards to students totaling \$7,000, and a more comprehensive bidding policy should be adopted.

- A. Supporting documentation related to some school district disbursements was either unavailable or was insufficiently detailed. A disbursement of \$3,062 for fuel was supported only by a summary statement of fuel purchases. The school district did not obtain individual receipts to reconcile the fuel purchases to the invoice during the period of our review. In other instances, invoices were submitted and paid, but the invoices were not adequately detailed to determine the work performed and the cost assessed. For example, a legal bill for \$2,274 did not adequately detail the amount of time the vendor spent on school district business or the hourly rate charged by the vendor. In addition, supporting documentation was not maintained for a significant number of credit card transactions. The school district paid approximately \$87,000 on nine credit cards during the 2 years ended June 30, 2009. Supporting documentation was not available for approximately \$20,860 (67 percent) of the total charges during a 5 month period reviewed.

Adequate documentation should be maintained to support all payments made. Invoices specifying the dates of service, hours worked, services provided, personnel in attendance, and hourly rate, if applicable, should be obtained, verified to the contract, and formally approved for payment to provide assurance that billings are proper. Without obtaining and properly reviewing adequate documentation from vendors, the school district cannot determine the validity and propriety of disbursements.

- B. Adequate records were not maintained to support the distribution of gift cards totaling \$7,000 to students with perfect attendance at summer school in 2007. The High School Principal purchased the cards and indicated the cards were distributed in \$50 and \$100 increments to students, but maintained no records to support the cards were all properly distributed. The district indicated the gift

cards were used as incentives to get students to attend summer school, which was a factor in school funding amounts for future years.

Maintaining adequate records to support the distribution of the gift cards provides assurance that all cards were distributed to students and were used for that purpose.

- 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 \$15,000 be bid as required by Section 177.086, RSMo. 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:

- Relocation of a gas pipe, costing approximately \$11,550. The school district said there was not sufficient time to obtain competitive pricing; however, there was no documentation of why competitive pricing was not obtained.
- Fuel costing approximately \$33,000 during the year ended June 30, 2009. The school district said the vendor was the only local source which provided diesel fuel; however, this was not documented.

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.

WE RECOMMEND the School Board:

- A. Maintain detailed supporting documentation for all disbursements, including original receipts to support the disbursement.
- B. Ensure adequate documentation is maintained for the distribution of gift cards to students in the future.
- C. Adopt a more comprehensive bid policy which requires bidding and establishes bidding requirements for purchases less than \$15,000.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. The district's new superintendent is aggressively pursuing the requirement of supporting documentation for district disbursements and maintenance of receipts and expense vouchers.*
- B. Procedures for the distribution of district funds including the maintenance of records are being reviewed and revised for any such future activities.*
- C. Review of the district's practices for obtaining prices and bids demonstrates the district's compliance with board policy, state requirements, and school board association recommendations. Non-regulated competitive pricing practices will continue to be district priority with improved documentation and record-keeping procedures being considered.*

4.

District Transportation

The district has not bid transportation services in recent years and has not adequately monitored contract terms with transportation contractors. The school district expended approximately \$300,000 for the 2 years ended June 30, 2009, for district transportation.

- A. The school district has contracted with the same three bus providers for many years and has not obtained bids for transportation services. These contractors serve five routes per day, as well as provide transportation for other district activities such as sporting events and field trips.

Competitive bidding provides a framework for economical management of the school district's resources and helps ensure the district receives fair value by contracting with the lowest and best bidder.

- B. Contracts with bus providers are not monitored closely for compliance and bus providers are not always treated equitably even though contract terms are the same. Our analysis of the contracts with the bus providers revealed the following concerns.

- 1) Fuel purchase provisions contained in the contracts with transportation providers need to be reviewed for reasonableness, and it is unclear how the fuel provision amount was calculated. During the 2 years ended June 30, 2009, all transportation contracts state the district will pay for fuel, parts, tires, and other miscellaneous accessories related to the operation of the buses and the contractors will reimburse the school for these costs in a timely manner (within 60 days). There is also a fuel option provision contained in each contract that allows the providers to

have \$500 deducted from each of their route payments as reimbursement for fuel costs each month, rather than reimbursing the district for the actual costs of fuel. The contracts state this option will apply for the term of the contract and appears to be required to be exercised at the beginning of the contract term. The former Superintendent indicated there is no documentation to support how this \$500 per month per route fuel option was determined.

In addition, one contractor exercised the fuel option in January 2008, during the middle of his 2007/2008 contract. From January to June 2008, this contractor's fuel charges totaled \$7,015, while the district withheld only \$4,000 from his payments (\$1000/month, \$500 per route). The district failed to withhold \$1,000 in January 2008. We brought this discrepancy to the districts attention during our audit and the \$1,000 was subsequently collected from the contractor in July 2009. Based on this analysis, this contract option cost the district over \$2,000 from January to June 2008 for this one contractor.

Considering the volatile nature of fuel prices, the district needs to reevaluate the inclusion of the fuel option in the transportation contracts. If this option is determined to be necessary, the district should perform a formal analysis of the amount per route and submit it to the Board for approval. In addition, to ensure contract compliance and equitable treatment of all contractors, the district should require all contractors make their determination of exercising this option at the beginning of the school year if the district continues to provide this option.

2. One contractor was not required to reimburse the school in accordance with contract terms for fuel/parts costs incurred. In addition, this contractor's payment amounts were changed during the term of his contract and approval for this decision was not documented. Reimbursements for fuel/parts charged to the district are due within 60 days or a 10 percent penalty is supposed to be assessed by the district. Our review of the contract payments to bus contractors and the subsequent tracking of fuel reimbursements identified several problems:
 - The school district overpaid a bus contractor \$7,650 during the year ended June 30, 2008. Beginning in September 2007, one contractor's monthly payments were increased by \$850 over the amount approved in the contract. In October 2007, this contractor met with the former Superintendent and Board in closed session to request an increase in his contract payments, which had apparently already been authorized by the former Superintendent in September 2007. The Board documented in its closed session minutes that no action was taken regarding this request and that the contract payment would remain as stated in the original contract.

However, the increased contract payments continued for the remainder of the fiscal year. This problem was resolved during the 2008/2009 school year when this contractor purchased new buses, which by contract increased his allowable contract payments for the 2008/2009 school year to a higher amount per contract (route payments are set based on the age of the buses used).

- For the year ended June 30, 2008, this same contractor was allowed to charge approximately \$11,600 in fuel throughout the school year. Rather than pay his fuel bill in full within 60 days as required by the contract, this contractor requested the district withhold \$850 per month from his contract payments as partial reimbursement for fuel. The amounts due each month in excess of the \$850 monthly withholding were allowed to accumulate throughout the year and totaled approximately \$3,950 as of June 30, 2008, per the district. While the district identified the \$3,950 was due in July 2008, the district did not collect this amount until paying this contractor for the June 2009 summer school routes, almost a full year later. No penalties were assessed for the failure to pay the amounts due within 60 days as required by contract. The amount due was withheld from a payment made in July 2009 to this contractor.
- Per our review of the monthly charges for fuel, parts, tires, etc., made by this contractor during the 2007/2008 school year, we determined the district failed to include approximately \$380 in the amount due. The former Superintendent indicated he simply missed these charges when tracking the monthly amount due. This amount has yet to be collected or recouped from this contractor and is due as of September 1, 2009.

Good management practices require payments made to providers be made in accordance with approved contracts. Any changes or modifications to contract terms should be publicly approved by the Board, and the contracts amended and updated to reflect these changes. Section 432.070, RSMo, requires contracts of political subdivisions be in writing. Likewise, any contract amendments should also be in writing. To ensure contractors are treated equitably, bus contracts and Board policies should be reviewed for accuracy and consistency. The district should adopt procedures to ensure all amounts due from contractors for fuel and other charges are collected timely and in accordance with contract terms.

WE RECOMMEND the School Board:

- A. Solicit competitive bids for transportation contracts.

- B.1. Reevaluate the inclusion of the fuel option in transportation contracts and perform a formal analysis to determine the amount of the monthly fuel option. If this option continues to be offered, the Board should ensure it is selected at the beginning of the contract term.
- 2. Monitor contracts more closely to ensure payments agree with contracted amounts, fuel costs are reimbursed timely and include all applicable costs charged to the district, all contractors are treated equitably, and changes in contract terms are approved by the Board. In addition, the district should pursue collection of any unpaid amounts from prior year bus contracts.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The district will continue to evaluate current costs and will prepare for future route and competitive cost evaluation practices.*
- B. *The district agrees with the importance of contract compliance by providers and the practice of equity. Bus contracts are currently under review to determine best financial feasibility for the district with respect for the local providers and the support they have given the school.*
 - 1. *Contractual specifics are being re-examined to insure practices are best suited to the fiscal needs of the district.*
 - 2. *New procedures for contractor purchases have been implemented and purchasing through the school has been eliminated. Evaluation of the current fuel option will be concluded prior to any contract extension.*

5.	Payroll Controls and Procedures
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District administrators do not ensure hours worked as noted on non-certified employee time cards are accurate and correctly entered into the payroll system for payment. Non-certified employees clock in and out daily, and manually indicate the hours worked per day on the time card. Time cards are submitted to school administrators and signed, but the total hours hand written on the time card are not compared to the clocked hours, and in at least one instance, the total hours worked as indicated on the time card were incorrectly input into the payroll system. One time card reviewed indicated 7 hours worked each day in a 4 day work week, but a total of 30 hours was handwritten as the total hours worked and this is the number of hours entered into the payroll system, rather than the 28 hours actually worked. In another instance, an employee was paid for 196 hours when the time card indicated she worked 184.25 hours, based on the time clocked in and out each day and subtracting time for lunch.

The district cannot ensure the legitimacy of payroll payments without ensuring an adequate review of supporting documentation is performed. Employee time cards should be reviewed by a supervisor and approved to ensure all salary payments are based upon hours actually worked.

WE RECOMMEND the School Board ensure non-certified employee time cards are adequately reviewed and the number of hours paid to employees agrees to the number of hours worked.

AUDITEE'S RESPONSE

The School Board provided the following written response:

The district has implemented practices for reviewing and approving employee timecards to assure accuracy of work records. Administration will continue to monitor employee records and documentation of work performed.

6. Meeting Minutes

The district did not comply with state law when holding closed meetings.

- A. Reasons for closing Board meetings and the vote to close the meeting were not always documented in the open meeting minutes. The Board held numerous closed sessions during the 2 years ended June 30, 2009, and the reason for the closed meeting and the vote to close the meeting were rarely documented.

Section 610.022, RSMo, 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.

- B. Closed meeting minutes were not sufficient to demonstrate that some issues discussed in closed meetings were allowable under the Sunshine Law. Closed session meetings included discussions with a bus contractor regarding a requested increase in an existing contract amount and various discussions regarding open teacher and superintendent positions.

Section 610.020, allows matters to be discussed in closed session only if they relate to certain specified subjects. Discussions in closed meetings should relate to the specific topics used to justify the meeting closure.

WE RECOMMEND the School Board:

- A. Ensure the reason for closing meetings and the vote are documented in the open session minutes.

- B. Ensure only allowable topics are discussed in closed meetings.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The district agrees with the importance of remaining compliant with Sunshine Law statute (chapter 610 RSMo) including requirements pertaining to closed session meetings. While the district practices have been in compliance, the district will assure documentation is provided accurately and thoroughly to demonstrate observance of the law.*

- B. *The district will continue to comply with state regulations regarding the documentation of why specific discussion is designated as closed session as outlined by Section 610.020 RSMo and record subsequent action, if applicable.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

SANTA FE R-X SCHOOL DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Santa Fe R-X School District is located in Alma, Missouri.

The school district operates a senior high school (grades 7-12) and an elementary school (grades K-6). Enrollment was approximately 410 for the 2008-2009 school year. The district employed 64 full and part-time employees, including 3 administrators, 49 teachers, and 12 support staff.

The Santa Fe R-X School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

An elected board acts as the policy-making body for the district's operations. The board's seven members serve 3-year terms without compensation. Members of the board during the 2 years ended June 30, 2009, were:

School Board	Dates of Service During the 2 Years Ended June 30, 2009
John Zitelman, President (1)	July 2007 – June 2009
Brad Hinz, Vice President (2)	July 2007 – June 2009
Russell Limback, Treasurer (1)	July 2007 – June 2009
Kim Aversman, Secretary (2)	July 2007 – June 2009
Mike Knipmeyer, Member (1)	July 2007 – June 2009
Randy Sleeper, Member	July 2007 – June 2009
Shane Lane, Member	July 2007 – June 2009

- (1) Re-elected to an additional 3 year term in April 2008.
- (2) Re-elected to an additional 3 year term in April 2009.

The district's other officials during the 2 years ended June 30, 2009, are identified below. The compensation of these officials is established by the school board.

Other Officials	Dates of Service During the 2 Years Ended June 30, 2009	Compensation Paid for the Year Ended June 30, 2009
Doug Wright, Superintendent (3)	July 2007 – June 2009	\$ 110,122
Tom Burton, High School Principal	July 2007 – June 2009	66,630
Amy Tieman, Elementary School Principal	July 2007 – June 2009	70,113

(3) Dr. Gini Barnett was hired as the Superintendent in July 2009. Included in the salary for Doug Wright is \$9,328 for supplemental family health insurance and \$2,700 for an annuity option.