



Thomas A. Schweich  
Missouri State Auditor

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# FOLLOW-UP REPORT ON AUDIT FINDINGS

## Rockwood R-VI School District

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August 2013

Report No. 2013-064



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<http://auditor.mo.gov>

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# Rockwood R-VI School District

## Follow-Up Report on Audit Findings

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\*Includes selected findings



# THOMAS A. SCHWEICH

## Missouri State Auditor

To the Board of Education  
Rockwood R-VI School District

We have conducted follow-up work on certain audit report findings contained in Report No. 2013-018, *Rockwood R-VI School District*, issued in February 2013, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

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

Our methodology included working with the school district, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we reviewed the district's action plan, which was created in response to our audit report and is available on the district's website. We also reviewed supporting documentation submitted by school district officials and held meetings with school district officials. Documentation provided by the district included policies, reconciliations, and various financial records. This report is a summary of the results of this follow-up work, which was substantially completed during June 2013.

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

Thomas A. Schweich  
State Auditor

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# Rockwood R-VI School District

## Follow-Up Report on Prior Audit Findings

### Status of Findings

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1. Program Management Services, Change Orders, and Conflict of Interest Significant fees in excess of those provided for by contract were paid to the program management company overseeing construction and renovation projects funded by bond issues. A change order process was frequently used rather than seeking bids to accomplish substantial project changes or new projects and reasons were not sufficiently documented. A conflict of interest existed between the program management company and a School Board member. Problems were also noted with the process for selecting program management services and retention of the related documentation.

1.1 Program management fees Concerns were noted regarding additional fees paid to the program management company based on added projects and change orders. The company was paid additional fees of \$1,203,178 for managing projects not itemized in the original scope of the program management contracts, without making modifications to the existing contracts or entering into new contracts. Due to the vagueness of the program management contracts, these additional fees appeared to represent overpayments.

When projects itemized in the contract were completed under budget, therefore not utilizing the full amount of the bond proceeds designated for those projects and on which the management fees were based, additional construction projects were performed with the remaining bond issuance monies. There was no written basis for the fees paid to manage the additional projects, and these appear to have represented overpayments. Also, fees for 17 additional projects were paid at a different percentage than stated in the contract and the fee percentage for 12 additional projects could not be determined.

Recommendation The Rockwood School Board ensure all services to be provided and fees to be paid are clearly documented in a contract to avoid confusion and misunderstanding. In addition, the district should attempt to collect any overpayment of fees.

Status **In Progress**

The district has neither solicited nor entered into an agreement for program management services since audit completion. However, district personnel indicated contracts related to similar future arrangements will include clear fee provisions to prevent misunderstandings. Also, Policy and Regulation 7130, Construction Manager Selection, approved by the Board at its March 7, 2013, meeting requires fees to be considered as part of the proposal and selection process, and requires the Board to establish a fair and reasonable price for such services.

Revisions to Policies 7210, Construction Contracts, Bidding, and Awards, and 7211, Approval of Building Projects, were approved by the Board at its June 20, 2013, meeting. Policy 7210 documents district requirements to



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clearly define, with detailed specifications, each construction project prior to the procurement of the construction services. No bid for the construction, alteration, or repair of any building shall be accepted if it does not conform to the approved plans and specifications. All bids and proposals will be retained as required by Policy 1510, Records Retention/Destruction. Payment to the construction project manager is to be made monthly for the work completed, less a percentage to be determined to ensure completion. The final payment will be made only after acceptance of the project by the Board and completion of the items to be corrected. In addition, Policy 7211 regarding change orders states the change order request form must clearly define all additional fees resulting from the proposed change, including any adjustment to the fee for program management.

Final determinations or decisions regarding possible fee overpayments have not yet been made. The district hired a program management expert to perform an investigation of the program management contracts and fees paid. A report with the investigation results will be provided to the district's attorney. The attorney will evaluate the report findings along with other information and present to the Board both the expert's report and her recommendations regarding fees paid and the district's options. The investigation results are expected to be released later this year.

## 1.2 Change orders

The district did not bid out significant work resulting from change orders, treated some new projects as change orders, and issued new contracts which were not bid. The district does not have documentation justifying the reasons for using change orders instead of bidding for significant project additions and changes.

## Recommendation

The Rockwood School Board ensure improved planning and monitoring of projects is performed to avoid significant change orders and give consideration to soliciting bids when substantial changes or additions are necessary. All decisions and justification for the decisions should be properly documented.

## Status

### **Implemented**

District Policy 7210 provides if a project changes substantially after bids are awarded, the Director of Purchasing, along with the Director of Facilities, will consider whether the additional scope of work should be bid separately and will document the reasons for their decision. If it is determined that the additional work should be bid, Policy and Regulation 3170, Purchasing, will be followed. If it is determined that a change order is appropriate, Policy 7211 which guides the change order process will be followed. Policy 7211 was revised to require any change to an approved contract be in writing using the approved change order request form and authorized by the superintendent/designee or board as applicable. The superintendent/designee



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may approve change order amounts of less than \$15,000; otherwise Board approval is required. Additionally, any proposed work at a new location not identified in the original scope of the project cannot be completed by a change order, but requires a new construction contract be bid. The change order request form was revised to ensure all appropriate information and approvals are documented.

Since the release of our audit report, the district has not had any large construction projects ongoing. Thus there have been no actual change order situations to manage.

### 1.3 Conflict of interest

Board member Steve Smith was employed by Glenn Construction Company while serving as a Board member, and did not always abstain from voting on issues related to his employer, resulting in a conflict of interest.

### Recommendation

The Rockwood School Board ensure each Board member avoids participation in decisions or other situations that could result in the appearance of or actual conflict of interest.

### Status

#### **Implemented**

Personnel training for all Board members and the Superintendent's cabinet, regarding conflicts of interest was given on June 20, 2013, by the district's attorney. There are no current conflicts of interest.

### 1.4 Selection process and record retention

The district used Glenn Construction Company for program management services for all construction and renovation projects financed with bond issue monies since the late 1990s. Proposals were solicited for these services each time bond issues were proposed to voters. Management fees were negotiated after the award of the contract was made. For proposals related to the 2010 bond issue monies, the district only maintained documentation submitted by two of the three bidders and did not retain bid evaluation committee scorecards to support the committee's recommendation. Also, district personnel indicated proposal documentation related to previous contracts entered into with Glenn Construction Company were not retained.

### Recommendation

The Rockwood School Board consider proposed fees as part of the program management services proposal evaluation process and retain all bid documentation for the required period of time.

### Status

#### **In Progress**

Policy and Regulation 7130, Construction Manager Selection, is based on Sections 8.675 to 8.687, RSMo, which provide requirements for selecting and contracting for construction management services. This policy contains specific guidance regarding the process to be followed by the district when



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obtaining program management services, and outlines the parameters pertaining to bid advertisement and bidder information required to be submitted. The policy also indicates the number of proposals will not be restricted or curtailed, and will be open to all program managers complying with the terms upon which the proposals are requested. Bidder proposals are required to provide various information including fees for overhead and profit, reimbursable costs, qualifications, references from prior management projects, and financial strength. After evaluation of proposals the Board will select a program manager and negotiate an acceptable contract at a price determined to be fair and reasonable by the Board. The policy provides if the district cannot negotiate an acceptable contract and fee with any of the construction managers submitting proposals, the district is to reevaluate the required construction management services and again advertise for proposals.

Policy 7210 requires all bids and proposals received for construction projects be retained as required by district Policy 1510, Records Retention/ Destruction.

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2. Bond Financing

The district used the same provider to serve as both financial advisor and bond underwriter for several general obligation refunding bond issues. These bonds were sold using a negotiated sale rather than a competitive bid process.

Recommendation

The Rockwood School Board discontinue using an underwriter who also acts in a dual capacity as financial advisor.

Status

**Implemented**

The Board approved Policy 3330, Bonded Indebtedness, on May 2, 2013, which states in no event shall any financial advisor for the district also perform underwriting services for the district. The policy also states the district should utilize competitive sales in lieu of negotiated sales. Exceptions to using competitive sales are limited to 1) when the Board determines the interest rate market is volatile enough a negotiated sale is likely to result in a lower cost to the district by executing the sale based on a predetermined interest rate or savings target, or 2) when the district utilizes a tax-credit or other non-standard structure of indebtedness to take advantage of a program which would reduce the cost of the indebtedness such as recovery zone bonds or qualified school construction bonds.

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3. Procurement Cards

The district had not adequately analyzed which staff needed procurement cards or the number of cards needed. The district's master credit card list was not accurate. The procurement card policy provided for users that intended or needed to exceed limits to request transaction and monthly credit limit increases from the purchasing department prior to making the



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related transactions; however, documentation of these requests and approvals was not retained.

**Recommendation**

The Rockwood School Board evaluate the need for each procurement card issued and update the master credit card listing periodically. In addition, the Board should periodically evaluate credit card limits and ensure approved purchases exceeding those limits are properly documented. Retention of such approval should be required by policy.

**Status**

**Implemented**

The Director of Purchasing performed a review of credit cards issued and their usage. In addition, several credit cards have been temporarily deactivated during the summer to prevent usage, and a separate file is now maintained to support temporary monthly and individual credit card transaction increases. The Director of Purchasing presented the results of the review of credit cards at the May 16, 2013, Board meeting. Of the 577 card accounts analyzed, 342 cards were authorized for 12 months of continuous use, 145 cards were authorized for temporary closure during the summer, and 90 cards were authorized for permanent closure. In addition, 197 cards were identified for possible monthly limit reduction.

Also, new credit cards issued must be reviewed and approved by the Superintendent's cabinet. The Chief Financial Officer indicated that a review of credit cards will be performed annually.

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4. **Procurement Procedures** Contrary to district purchasing Policy 3170, professional services were frequently obtained without benefit of a competitive selection process, and fuel purchases had not been bid for several years. Some purchases, including legal services, were specifically exempted from the purchasing policy.

**Recommendation**

The Rockwood School Board ensure compliance with the district purchasing policy and modify the policy to require a periodic and competitive selection process when obtaining professional services.

**Status**

**Implemented**

The district has revised its purchasing policy regarding expenditures over \$7,500. Modifications require that contracts over \$7,500 be signed by the Board. In addition, contracts must already have been signed by the vendor and the purchasing form completed documenting the purpose for executing the contract including the goods to be received and/or services to be performed.





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The purchasing form has been created to ensure all necessary steps have been completed. According to the purchasing policy, those steps include:

- The form must be fully completed. Completion of the form requires the contract to include specific information and justification for the selection, where the product/services will be utilized, length of the contract, the individual submitting the request, person responsible for monitoring the contract, all other vendors submitting bids and the amounts, and the account to which the expenditure is to be charged.
- The completed form and vendor signed contract is to be sent to the attention of the appropriate cabinet level supervisor, who will approve the request and then forward it to the Executive Secretary of Finance, to be included on the agenda at the next Board meeting. After Board approval the contract will be sent back for retention.

In addition, the district solicited and received eight proposals for legal services. The Board determined to retain the current legal counsel because they were the lowest proposal. The district provided us documentation showing the bids received and the proposed rates.

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**5. Receipting Procedures** Initial receipting and recording of monies was not sufficient and transmittal procedures did not provide proper accountability.

**5.1 Receipting procedures** Most departments and/or programs did not issue receipt slips for monies received or issued receipt slips only for cash receipts. Receipt records were not always sufficient to support amounts deposited.

**Recommendation** The Rockwood School Board ensure pre-numbered receipt slips are issued for all monies received and the composition of receipts is reconciled to deposits.

**Status** **In Progress**

The district is currently developing a receipting program which allows for any employee to record the receipt of monies when received. At the time the deposit is prepared an audit sheet will be completed documenting the reconciliation of the deposit to the composition of the payment listed on the receipt slips. The receipting program will also track the monies as they are forwarded to the finance clerk and deposited to provide a complete chain of custody. Security will be designed to prevent misuse and ensure the accuracy of transactions recorded. The district has set an implementation target date of late fall or spring of the 2013-2014 school year.



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**5.2 Transmitting procedures** Various district departments transmitted monies to the Finance Department and the Community Education Department for further processing and deposit. Although some departments submitted a report of receipts, employees did not document their acknowledgment of the report or of the monies that had been transmitted from one person to the next.

**Recommendation** The Rockwood School Board ensure receipt slips are issued or transmittal records are signed to better document the transmittal of monies between departments.

**Status** **Implemented**

The district now issues receipt slips for all monies transmitted between departments.

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**6. Capital Assets and Fuel Usage** Controls and procedures over district property and fuel usage needed improvement.

**6.1 Capital assets** Procedures and records to account for district property were not adequate. The Director of Finance and the Director of Transportation/Purchasing indicated an annual physical inventory of district property was not performed by the school district. In addition, capital asset listings were not always updated accurately.

**Recommendation** The Rockwood School Board ensure complete, accurate, and detailed capital asset records are maintained and annual physical inventories conducted and compared to detailed records.

**Status** **In Progress**

The Board approved a revision to Policy 5410, Inventory Requirements, on June 20, 2013, which requires a perpetual inventory to be maintained for the capital assets of the district and totals to be included in district accounts. The policy states the maintenance of the capital asset inventory will result in a complete record of all property information for ready reference, ensure the district has current information for insurance adjusters as they set premiums and supporting documentation in case of loss, determine the district's capital worth, and provide accountability for the district's physical property. A physical inventory is required annually for all capital assets with an individual cost of \$5,000 or more, and computers, laptops and tablets, musical instruments, and cameras that cost \$500 or greater and are susceptible to theft. The district solicited bids and selected the lowest bid to perform the initial inventory in the summer/fall of 2013. The district will then conduct all future annual inventories.



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6.2 Vehicles and fuel use

Controls and procedures over fuel use and purchases needed improvement. The district maintained two diesel tanks for fueling school buses, some non-pool vehicles, and equipment. Records of fuel pumped were provided to the district but no reconciliation to fuel invoices was performed. The maintenance supervisor did not document his review for one diesel tank and no records of fuel usage were maintained at the second diesel tank. In addition, the Director of Transportation did not document his review and approval of monthly fuel card usage reports for district pool vehicles and several other non-pool vehicles. Also, mileage/usage logs were not maintained for pool vehicles (except for one), non-pool vehicles, or buses to adequately monitor the usage of district vehicles.

Recommendation

The Rockwood School Board ensure a documented periodic reconciliation of fuel purchased to fuel used is performed, and investigate any significant discrepancies. In addition, the Board should ensure mileage logs are maintained for all district vehicles.

Status

**Implemented**

The district has developed mileage logs for all vehicles which document the vehicle number, description, department, last transaction, fuel grade, odometer reading, date of reading, and person verifying the reading. In addition, the district indicated it will now be notified within minutes by email from the vendor if an inaccurate odometer reading has been entered when purchasing fuel. The district is monitoring fuel usage compared to fuel purchases for all buses utilized by the district. The Director of Purchasing provided the monthly fuel reconciliation for April 2013. Each month the district calculates the number of gallons of fuel pumped and the miles per gallon for each bus. The actual miles per gallon for each bus is then compared to the average miles per gallon of fuel used for a bus.

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8. Attendance Reporting  
Controls

The district's attendance system did not adequately limit the time frame during which changes could be made to student attendance records. In addition, there was no review by district officials to ensure changes made to current school year attendance records were appropriate. Also, there was no documentation indicating all necessary changes had been completed prior to uploading the attendance reports to the DESE.

Recommendation

The Rockwood School Board implement additional controls and procedures to ensure student attendance data is accurately recorded and reported, including restricting the time frame in which changes to data can be made. In addition, all changes to attendance data should be reviewed to ensure accuracy.



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**Status**

**Implemented**

The Board approved Policy 2310, Student Absences and Excuses, on May 2, 2013. The policy provides for the Superintendent or designee to review the monthly attendance records of the district. The district has developed a procedure which compares changes made to attendance records on a weekly basis. We reviewed the May 2013 attendance reports and noted that district officials had documented their review of the reports. According to district personnel, the software vendor stated the system cannot be changed to restrict the length of time changes can be made to attendance records during the current year.