



Thomas A. Schweich

Missouri State Auditor

St. Joseph School District

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the St. Joseph School District

District Compensation	The St. Joseph School District's use of its existing salary schedules and stipend system has resulted in a confusing, inconsistently applied, and poorly documented system of compensation. Salary schedules were not complete or always properly approved, there were no salary schedules for some classes of employees, and the district did not have adequate documentation to support some employees' placement and advancement on respective salary schedules. The district failed to establish adequate policies and procedures regarding stipends, does not maintain adequate documentation of the stipend amounts paid to employees, and the School Board does not approve most stipends given to employees. Stipend payments totaled \$3.8 million for the 2013-2014 school year. In addition, some additional compensation appears questionable and unnecessary, and the district is not complying with its overtime policies.
Payroll Procedures, Records, and Policies	The district has not established adequate segregation of duties or supervision over payroll functions and some employees do not sufficiently review or maintain up-to-date time records. Documentation and reporting of post-retirement employment activities need improvement, the district does not have policies regarding related employees, and the School Board does not adequately safeguard electronic signatures. Also, personnel records are not complete, the district does not monitor personal use of a district vehicle, and the district does not have a policy regarding vacation leave payouts to retired employees.
Summer School Funding	The district inaccurately reported 2014 and 2013 summer school attendance to the Department of Elementary and Secondary Education, resulting in an overpayment of state aid totaling approximately \$3.5 million.
Financial Condition	The district reduced budgeted expenditures for the 2013-2014 school year due to reductions in state funding. In addition, the district's questionable expenditures and other financial obstacles could result in a decline of the district's financial condition.
Bonds	The district is not complying with the requirements of the Qualified Zone Academy program, is not reporting bond compliance as required, and sold \$31,870,000 of general obligation bonds in 2012 and 2013 through negotiated instead of competitive sales.
Procurement Procedures and Construction Projects	The district did not bid, obtain quotes or document sole source justification for several large purchases, has not established comprehensive policies for procuring professional services, and did not procure engineering services for projects in 2012 and 2014 as required by law. In addition, the district did not competitively bid the district's solar panel project, and does not maintain complete project files.
Contracts	The district does not always monitor contracts effectively, enter into written contracts timely or when appropriate, and did not obtain statutorily required affirmations from five service providers attesting to their participation in the E-Verify program and that they did not knowingly employ unauthorized aliens.
Disbursements	District officials do not present a list of bills paid to the Board for review and approval and made several questionable disbursements. In addition, the

district does not have a written policy regarding its alternative certification program

Purchasing Cards	The district does not monitor or limit purchasing card monthly cycle limits and did not detect some inappropriate purchases.
Cell Phones, Tablets, and Internet Service	The district unnecessarily provided free Internet service to several individuals, did not adequately monitor cell phone use, and does not have a consistent policy regarding personal use of district electronic devices.
Capital Assets	The district does not maintain complete and accurate records of capital assets and does not perform periodic physical inventories. The district's independent CPA reported similar issues in its fiscal year 2013 audit.
Fuel Use and Controls	The district does not bid fuel purchased for district-operated vehicles and buses, does not periodically reconcile fuel purchased to fuel used, and does not periodically recalibrate fuel pumps.
Sunshine Law	The School Board did not always comply with the Sunshine Law and held numerous improper closed meetings.
Computer Controls	The district does not require employees to change their passwords on a periodic basis, does not periodically test its backup data, and has not developed a disaster recovery plan to ensure it can promptly restore computer operations in the event of a disaster or other disruptive event.
Restricted Funds	District officials could not locate original documents supporting donor gifts and related fund restrictions, and the district's business office does not maintain all restricted funds designated for scholarships.
School Stores	School personnel that supervise district middle and high school stores do not periodically reconcile inventory on hand to sales made, and do not reconcile daily sales records to deposits.
Internal Audit	The district's Internal Auditor did not report directly to the School Board, was not independent of all activities audited, and did not perform an annual risk assessment, or develop an annual audit plan. In addition, the Internal Auditor did not always perform follow-up work on recommendations or prepare written reports when this occurred.

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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St. Joseph School District

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. District Compensation.....	4
	2. Payroll Procedures, Records, and Policies	14
	3. Summer School Funding	20
	4. Financial Condition	22
	5. Bonds.....	23
	6. Procurement Procedures and Construction Projects.....	26
	7. Contracts.....	31
	8. Disbursements	34
	9. Purchasing Cards.....	37
	10. Cell Phones, Tablets, and Internet Service	40
	11. Capital Assets.....	42
	12. Fuel Use and Controls	43
	13. Sunshine Law	44
	14. Computer Controls	46
	15. Restricted Funds	48
	16. School Stores.....	49
	17. Internal Audit	50

Organization and Statistical Information	53
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Missouri State Auditor

To the Board of Education
St. Joseph School District

The State Auditor conducted an audit of the St. Joseph School District under authority granted in Section 29.205, RSMo. We have audited certain operations of the district in fulfillment of our duties. The district engaged Westbrook & Co., P.C., Certified Public Accountants (CPAs), to audit the district's financial statements for the year ended June 30, 2014. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2014. The objectives of our audit were to:

1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the 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. We also 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, 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.

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

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the St. Joseph School District.



Thomas A. Schweich
State Auditor

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St. Joseph School District Management Advisory Report State Auditor's Findings

1. District Compensation

The St. Joseph School District's (district) use of its existing salary schedules and stipend system has resulted in a confusing, inconsistently applied, and poorly documented system of compensation. In addition, the district has not performed cost analyses or studies to determine whether hiring additional employees might be more cost effective than paying significant amounts of overtime to existing staff.

Annually, in accordance with School Board (Board) policy, the Director of Human Resources (HR) compiles approximately 20 salary schedules for similar positions (e.g. teachers, administrators/supervisors, etc.) and provides the schedules to the Board for approval in the spring prior to the upcoming school year. The HR Department then creates employment contracts based on the approved salary schedules. The Board approved the 2013-2014 school year salary schedules on April 8, 2013. Salary expenditures totaled approximately \$69 million for the 2013-2014 school year.

Employee contracted salaries are based on the employee's placement on the applicable salary schedule. Employee placement and advancement on district salary schedules is generally through step increases for service years, but may also include range increases due to educational degrees or certification levels achieved. According to district policy, an employee's initial salary schedule location is determined based on previous employment, experience, and academic training, including prior teaching experience outside the district. In addition, Board policy limits advancement for professional staff from one year to the next to one step (based on increase in service years) and one range (increase due to education or certification achieved) unless otherwise approved by the Board.

Employment contracts also incorporate additional compensation (salary beyond an employee's base pay or hourly wage). This compensation includes extra duty pay, travel allowances, some stipends, and/or other contracted payments. Typically extra duty pay is included in salary schedules approved by the Board and extra duty contracts are executed between the district and an employee for assuming these additional responsibilities. These extra duties include, for example, coaching district athletic teams, coordinating curriculum, and acting as department chairperson.

The district also provides stipends, which are payments beyond the base contract and extra duty pay. Most stipends are not approved by the Board or included in the salary schedule. Only longevity, new teacher orientation, graduation credit, lunch room supervisor, national board certified, and career stipends, as well as travel allowances, were included on the 2013-2014 salary schedule approved by the Board. The district payroll system includes at least 83 categories of stipend and extra duty payments.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

We reviewed 62 personnel files and related payroll expenditures for school years 2012-2013 and 2013-2014 and identified various concerns.

1.1 Salary schedules and employment contracts

Salary schedules were not complete or always properly approved and there were no salary schedules for some classes of employees. In addition, the district did not have adequate documentation to support some employees' placement or advancement on respective salary schedules.

Salary schedule approval

District officials did not provide the Board all salary schedules for approval. In addition, salary schedules provided to and approved by the Board were incomplete. The Director of HR did not provide salary schedules for Hillyard Technical Center (HTC) employees to the Board, and as a result, the Board did not approve the schedules. According to the HR office manager, the district maintains three different salary schedules for HTC employees but they were not included in the salary schedules originally approved by the Board. HTC salary schedules were eventually approved in September 2014. HTC salary expenditures totaled approximately \$2.3 million for the 2013-2014 school year.

In addition, there are no salary schedules supporting Parents as Teachers (PAT) educators' or summer school teachers' salaries. As a result, the Board only approved compensation for these employees in total through adoption of the district's annual budget for these programs. This process does not provide the Board information regarding the salaries paid for individual positions. PAT and summer school salary expenditures for the 2013-2014 school year totaled approximately \$332,000 and \$974,000, respectively.

Salary schedules clearly defining all compensation should be approved by the Board to ensure all employees are treated fairly and equitably and salaries are calculated consistently.

Salary schedule placement

The district's placement or advancement of some employees on applicable district salary schedules is not always adequately documented, in accordance with policy, or approved by the Board.

The following are examples of concerns noted during our review:

- The PAT Coordinator had no documented graduate credit hours, but received a salary according to the district's salary schedule requiring a Bachelors of Arts/Science degree plus 16 graduate credit hours in at least the 2012-2013 and 2013-2014 school years. The employee's personnel file did not contain documentation to support that she had obtained the 16 graduate credit hours and the district could not provide any additional support. The placement provided the PAT Coordinator an additional \$925 in annual compensation.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

- A math teacher without a master's degree received a salary during the 2008-2009 through 2011-2012 school years according to the district's teacher salary schedule requiring a master's degree. She did not obtain her master's degree until May 2012. Placement based on a master's degree resulted in approximately \$2,700 in additional annual compensation.
- Another math teacher's initial salary schedule placement in 2013 was not in accordance with policy. The teacher was hired with 24 years of experience from outside the district. She was placed on the teacher's salary schedule at step 24 and paid accordingly. However, district policy only allows a maximum of 15 years outside experience to be considered when determining the initial salary schedule step placement. Based on this information, the teacher should have been placed at step 13 of the teacher's salary schedule. A district official indicated the district has discussed removing the outside experience clause from the teachers' salary schedule because the district needs to be able to offer teachers years of service consistent with experience to attract experienced teachers. However, this procedure was not approved by the Board. Placement at step 24 provided this teacher an additional \$9,090 in annual compensation.
- The Director of Operations' 2013-2014 school year salary, \$82,500, is based on step 6 on the district's Assistant High School Principal salary schedule although he is not a principal. The district compensates other Directors, Assistant Directors, and Technical Directors at the same step on the respective director salary schedules in the amounts of \$90,500, \$85,100 and \$72,500, respectively, and it was not clear why the Director of Operations' salary was not paid based on the Director or Assistant Director schedules. According to a district official, the district historically based the Director of Operations' salary on the Director or Technical Director salary schedule. However, this official also indicated because the Director of Operations is not a member of the Superintendent's Council he could not be placed on the Director salary schedule and instead was placed on the Assistant High School Principal schedule to be commensurate with the position's responsibilities that district personnel determined to be equivalent to an Assistant High School Principal. The district did not document these considerations.
- The Controller moved from step 5 of the Assistant Director's salary schedule for the 2012-2013 school year to step 8 on the Director's salary schedule for the 2013-2014 school year without adequate documentation to support she had additional job responsibilities that necessitated the change. This movement in schedule and steps provided the Controller an additional \$10,700 in annual compensation.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

- The Warehouse Supervisor's promotion in August 2013 from the Maintenance Supervisor salary schedule to the Technical Director salary schedule was not supported by documentation detailing the additional job responsibilities that necessitated a change in step and schedule. In addition, the Warehouse Supervisor does not have a master's degree and the Technical Director salary schedule requires this degree. The movement from step 12 on the Maintenance Supervisor's salary schedule to step 1 on the Technical Director's salary schedule provided him an additional \$16,226 in annual compensation.
- The district did not handle the promotion of two employees to elementary principals for the 2013-2014 school year consistently. One employee was promoted from an instructional coach/math teacher and placed on step 1 of the elementary principal salary schedule. The other was promoted from a middle school assistant principal and placed on step 3 of the elementary principal salary schedule. The district did not have documentation to justify the difference in placement. The difference in annual salary between step 1 and step 3 is \$2,400.

There was no indication in Board meeting minutes or personnel files that the Board reviewed and approved any of these placements on applicable salary schedules. To ensure employees are treated fairly and equitably, employees should be paid in accordance with district salary schedules established by the Board. If necessary, the Board should ensure the district maintains adequate documentation supporting any decisions that deviate from the district's salary schedules, and the Board should approve such decisions.

Employment contracts

The Board does not review or approve certified teacher or administrator employment contracts. Some employment contracts did not include all employee compensation and district personnel did not prepare amendments for additional compensation provided to various employees. HR Department personnel prepare employment contracts and apply the Secretary to the Board and Board President's electronic signatures to the contracts (see MAR finding number 2.4). Neither the Board President nor the Board performs a subsequent review of the contracts.

In addition, several employees were paid in excess of their contract. For example, the district promoted the Controller and Warehouse Supervisor (discussed above), in August 2013 and revised their contracts to reflect the promotions. The Controller's revised contract states she was to be paid at step 9 of the Assistant Director's salary schedule (\$88,700); however, she was actually paid at step 8 on the Director's salary schedule (\$92,900). According to a district official, the salary paid was deemed more appropriate due to the additional responsibilities assumed by the Controller. In addition, the Warehouse Supervisor's revised contract states he was to be paid at step 12 on the Maintenance Supervisor's salary schedule (\$24.39



St. Joseph School District
Management Advisory Report - State Auditor's Findings

per hour or approximately \$50,700 assuming 2,080 annual work hours); however, he was actually paid at step 1 on the Technical Director's salary schedule (\$66,500). The Board retroactively approved these promotions and six others in March 2014, but the district did not issue new contracts to the employees reflecting their increased salary.

Formal written employment contracts and contract amendments that clearly define all contractual terms, are necessary to ensure all parties are aware of their duties and responsibilities, and to prevent misunderstandings.

1.2 Stipends

Significant issues exist with district provided stipends. The district failed to establish adequate policies and procedures regarding all stipends, and adequate documentation of the stipend amounts paid to employees is not always retained. Most stipends are not approved by the Board, even if included in employment contracts, and documentation is not retained to justify that payments are actually for responsibilities performed outside normal contracted duties.

Stipend payments totaled approximately \$3.8 million for the 2013-2014 school year and average annual stipend payments totaled approximately \$3.3 million over the past 8 years. Several of the stipends date back to at least the 2000-2001 school year per district payroll records. While we did not review all stipends, our review identified pervasive problems with the district's use of stipends as a form of compensation. Inadequate documentation and lack of approval of certain documents by the Board have resulted in significant stipend disbursements without the knowledge or approval of the Board. We identified several concerns regarding the stipend approval process, documentation, and payments.

Stipends not approved

The district provided numerous stipends that were not included in Board approved salary schedules or otherwise approved by the Board. Approximately 30 of 83 payroll system categories of extra duty or stipend payments provided during the 2013-2014 school year were not included in approved salary schedules. Examples include night duty and superintendent's council, as well as stipends labeled as "additional." Expenditures for these stipends totaled approximately \$207,500, \$72,000, and \$168,000, respectively, for the 2013-2014 school year. According to the district's payroll records, expenditures for these stipends have totaled approximately \$672,900, \$579,300, and \$2.5 million, respectively, since the 2000-2001 school year.

In addition, in August 2013 the Superintendent approved additional travel allowances (beyond amounts already approved in the salary schedule) and night duty stipends totaling approximately \$250,000 to 54 employees. The district did not amend the employees' contracts to reflect the addition of and/or change in the already approved amount of their contracted travel



St. Joseph School District
Management Advisory Report - State Auditor's Findings

allowance and night duty stipends. The Board retroactively approved these stipends in February 2014.

Stipend amounts not authorized

Numerous stipend payment amounts did not agree to approved salary schedules or employee contracts. Examples include travel, longevity, and coordinator stipends listed on salary schedules or an employee's contract, but the employees received different amounts. Expenditures for these stipends totaled approximately \$324,200, 215,400, and \$118,400, respectively, for the 2013-2014 school year. According to the district's payroll records, expenditures for these stipends have totaled approximately \$2.4 million, \$4.3 million, and \$1.6 million, respectively, since the 2000-2001 school year.

Lack of documentation/
unreasonable stipends

The district did not retain documentation for numerous employee stipends to justify payment for responsibilities performed outside an employee's normal contracted duties. Examples include night duty, superintendent's council, graduate credit, and "additional" stipends. In some instances the stipends appear to be extra pay for something the employee was already doing or expected to do. For example, the district provides night duty stipends ranging from \$550 to \$5,000 to building and district level administrators who are expected to be visible in the community and at district events. The district provides superintendent's council stipends of \$9,000 each to the 7 individuals on the Superintendent's Council. Inclusion on the Superintendent's Council is based on the employee's position (Chief Operating Officer (COO), Chief Financial Officer (CFO), Directors of Curriculum, Director of HR, etc). Individuals in these positions are expected to advise the Superintendent, so it is not clear why additional compensation for that function is necessary. The Superintendent also receives a graduate credit stipend of \$6,000 for possessing a graduate degree, which is a requirement of the position. This stipend is also not included in the Superintendent's contract.

In addition, current district officials were unable to determine why some "additional" stipends were ever provided to employees. These stipends total several thousands of dollars over some employees' base salaries. For example, for the 2013-2014 school year the Director of HR and COO received stipends above their base salary totaling \$39,710 (\$13,510 additional, \$9,000 superintendent's council, \$6,400 athletic director, \$4,900 travel, \$3,000 graduate credit, and \$2,900 night duty) and \$35,343 (\$14,070 additional, \$9,000 superintendent's council, \$4,900 longevity, \$4,473 district vehicle, and \$2,900 night duty), respectively. The Director of HR's base salary was \$96,500 and the COO's base salary was \$97,700.

Extra days stipends

The district does not always contract for the number of days an employee is required to work, unnecessarily increasing the number of stipends. Examples include counselor registration and extra days stipends that extend



St. Joseph School District
Management Advisory Report - State Auditor's Findings

an employee's required number of work days beyond the start or end date of the employee's contract. The employee's job duties require him/her to work the extra days but these days are not reflected in the employee contract and the district provides stipends to compensate for this work. The district includes stipends in each employee's contract, but the stipends were not always in Board approved salary schedules or otherwise approved by the Board.

Expenditures for these stipends totaled \$41,385 and \$127,161, respectively, for the 2013-2014 school year. According to the district's payroll records, expenditures for these stipends have totaled approximately \$551,000 and \$1.2 million, respectively, since the 2000-2001 school year.

Lack of policy

The district also does not have policies governing several other stipend payments made to district employees including those for obtaining certifications, attending meetings such as new teacher orientation, and participating in professional development opportunities. Criteria have not been established defining how this compensation is earned.

Conclusion

Adequate policies and procedures regarding stipends and preparation of extra duty contracts that specify stipend amounts and related duties are needed to adequately support such payments, clarify the process, and ensure stipends are consistently provided. In addition, extra compensation should not be paid to employees for performing normal contracted duties.

It is clear that salary negotiations in the past occurred to a large extent with very little oversight or approval of the Board. In addition, while some of the issues have already been brought to the Board's attention and have resulted in changes to the 2014-2015 salary schedules, it is unclear whether all additional compensation has been approved by the Board. As a result, the Board should consider conducting a formal compensation study to review the stipend system to ensure fair and equitable payment of employee salaries.

1.3 Additional compensation The school district uses a variety of methods for providing additional compensation, including allowances, stipends, and other contracted payments to various district employees. Some compensation appears questionable and unnecessary.

- The district has not documented the basis for the Superintendent's monthly vehicle allowance or employee travel stipends. The vehicle allowance and stipends are intended to compensate the Superintendent and certain employees for driving personal cars within the district to conduct district business. Mileage incurred outside the district is compensated through employee expense reimbursements. The district pays a \$500 monthly vehicle allowance to the Superintendent. In



St. Joseph School District
Management Advisory Report - State Auditor's Findings

addition, the district paid approximately 200 employees a total of \$324,200 for travel stipends for the 2013-2014 school year, with the largest monthly stipend of \$408 paid to top administrators. Using the district's current mileage reimbursement rate of 50.5 cents per mile, the Superintendent and top administrators would have to drive 990 and 808 miles within the school district monthly, respectively, to justify earning these allowances/stipends.

- The district's final contract with former Superintendent Colgan included a provision for the district to provide medical insurance for life after he retired on December 31, 2005. The district paid approximately \$4,600 for Dr. Colgan's 2013 medical insurance.
- In May 2013, the district paid \$99,734 to the Public Schools Retirement System of Missouri (PSRS) to purchase 2 years additional employment credit on behalf of former Superintendent Smith as an incentive for her to retire effective June 30, 2013.
- An employee under contract through June 30, 2013, continued to receive compensation from the district while on medical leave after exhausting all leave balances in February 2013. Documentation in the employee's personnel file states that the employee would be on leave without pay once he exhausted all leave balances; however, the employee was not placed on leave without pay in accordance with this documentation or district policies. As a result, the district paid the employee approximately \$18,000 in additional compensation.
- The district continues to provide "in lieu of health insurance" stipends to several employees. According to the Director of HR, the stipend was originally provided to employees who declined medical insurance coverage through the third party provider when the district switched from a self-insured medical plan to contracted medical insurance coverage. The Director of HR indicated the stipend has not been offered for over a decade, but approximately 40 employees have been "grandfathered in" and still receive the stipend. The "in lieu of health insurance" stipend payments have decreased from approximately \$220,000 in the 2001-2002 school year, to \$25,000 for the 2013-2014 school year.

While the district reported vehicle allowance and travel stipend payments made as taxable income, the district should periodically review the reasonableness of the mileage allowances paid and, if necessary, adjust the allowances to reasonably reflect the actual expenses incurred by the employees on behalf of the district. In addition, to prevent additional costs the district should review the propriety of additional compensation arrangements and refrain from similar arrangements in the future.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

1.4 Overtime payouts

The district paid overtime to Maintenance Department employees when not required by the Fair Labor Standards Act of 1938 (FLSA) or Board policy. In addition, the district has not reviewed staffing and workloads for positions that incur frequent overtime payments to determine whether workloads need to be adjusted or whether more full- or part-time personnel should be hired. For the year ended June 30, 2014, the district paid approximately \$472,000 in overtime.

- The district allows maintenance employees to accrue and be paid overtime at time and one-half even when they do not actually work 40 hours. For example, we noted 2 different employees received overtime pay at time and one-half when the employee took sick or vacation leave and included those leave hours in actual hours worked. We also noted one of these employees was paid overtime at time and one-half for time worked during the paid winter break. According to a district official, maintenance employees are allowed a paid winter break, however, the Board has no policy allowing these paid holidays or overtime for hours worked in excess of the holiday time.

Board policy indicates overtime does not begin until an employee has actually worked 40 hours in a week and does not specifically allow for overtime during winter breaks. In addition, the FLSA only requires employees to be compensated at time and one-half for actual work hours in excess of 40 hours per week.

- Several employees received significant amounts of overtime compared to their normal salary. For example, the payroll clerk received compensatory time (accrued overtime) payments totaling approximately \$16,700 for the year ended June 30, 2014. Her regular salary is \$35,919. We also noted a maintenance employee received overtime payments totaling approximately \$18,200. His base salary is \$35,900, and he receives a \$2,400 stipend for after hours on-call status.

Board policy "discourages overtime," but this policy does not seem to be the district's current practice. By not following its overtime policy, the district is paying more overtime than required resulting in a greater financial burden for the district. Accurate overtime calculation procedures are necessary to ensure compliance with district policy and equitable treatment of district employees. Considering the significant amount of overtime incurred and paid to some district employees, the district should review staffing and workloads for positions that incur frequent overtime payments to determine whether workloads need to be adjusted and whether more full- or part-time personnel should be hired.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

Recommendations

The School Board:

1.1&

1.2 Conduct a formal compensation study, revise salary schedules, and eliminate unnecessary stipends. In addition, the Board should provide additional oversight and approval regarding compensation decisions. The Board should also ensure that compensation amounts paid agree to authorized amounts.

1.3 Review vehicle allowances and travel stipends and set amounts to reasonably reflect the actual expenses incurred by employees. In addition, the Board should consider eliminating unnecessary additional compensation payments.

1.4 Ensure compliance with the district overtime policy. In addition, the Board should review staffing and workloads to identify ways to reduce overtime and areas where additional personnel may be needed.

Auditee's Response

The School Board provided the following written responses:

1.1&

1.2 *An initial formal compensation study was requested by an Ad Hoc committee (a Board approved committee comprised of a Board member, community members, and staff members) in January 2015. The compensation study will be evaluated by the Board and administrative staff to determine if further salary information is needed. On January 12, 2015, the Board adopted a salary index for the 2015-2016 school year that incorporated administrative stipends into salaries. Employees will be placed on the salary index according to duties and responsibilities with close Board oversight. In June 2014, all administrative contracts for the 2014-2015 academic year were provided to the Board for review. The same procedure will continue annually once employment and compensation is approved by the Board. The Board will be provided with a list of staff members who are recommended to move more than one step with the documentation and information regarding justification on the move for approval. All contracts and salary notifications will be available for the Board to review and audit.*

1.3 *The district will review vehicle allowances and eliminate travel stipends when possible. The Board will consider eliminating unnecessary additional compensation payments in the future because of their long-term effect. The district will also document and confirm mileage reimbursements in accordance with IRS guidelines. The district will conduct a cost analysis on the purchase*



St. Joseph School District
Management Advisory Report - State Auditor's Findings

of economic vehicles instead of paying mileage and present the cost analysis to the Board.

- 1.4 *The district will embark on a full examination of overtime policies and procedures. The district will begin identifying significant overtime workloads and will present recommendations for the reduction of overtime to the Board.*

2. Payroll Procedures, Records, and Policies

Significant improvement is needed related to payroll procedures, records, and policies.

2.1 Payroll procedures

The district has not established adequate segregation of duties or supervision over the payroll functions. In addition, various district personnel do not perform sufficient reviews of or maintain up-to-date time records.

- Payroll duties are not always adequately segregated. During the personnel budgeting process, prior to the start of each new school year, the Business Office is short staffed and grants the HR Department system access to both establish new employees and enter their pay amounts. This process circumvents established controls and increases the risk that a fictitious employee could be created. During the remainder of the year, the district has established controls in which the HR Department can create and enter new employee information, but cannot enter payroll amounts into the district payroll system. The Business Office enters payroll amounts in the system after receiving an approved employment transmittal, documenting the employee's rate of pay, from the HR Department.
- Non-exempt¹ employees prepare timesheets and leave requests; however, these documents are not always signed by the employees or their supervisor to document approval of time worked, overtime earned, and leave used.
- The district does not maintain up-to-date compensatory time accrual records for employees. At the time of our review in May 2014, we noted compensatory time balances had not been updated for 6 months. The Controller indicated compensatory time records are updated and paid

¹ Board policy defines non-exempt employees as all district employees not specifically identified as exempt under federal law. This definition generally includes noncertificated staff; however, in some circumstances noncertificated staff members may qualify for exempt status.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

out prior to the fiscal year end as appropriate, but due to staffing constraints the Payroll Department was unable to keep records up to date.

Proper segregation of duties and independent reviews of payroll transactions and records would help ensure all payroll transactions are accounted for properly and assets are adequately safeguarded. Without a review of payroll documentation, errors, theft, or misuse of district resources could go undetected. In addition, signed, approved and up-to-date time records, including compensatory time accruals, are necessary to document hours worked, substantiate payroll disbursements, provide the district with a method to monitor hours worked and leave taken, and are beneficial in demonstrating compliance with FLSA requirements.

2.2 Post-retirement employees

Documentation and reporting of post-retirement employment activities need improvement.

Per Section 169.560, RSMo, a teacher or school employee retired and currently receiving a retirement allowance may be employed in any capacity in a school district on either a part-time or temporary-substitute basis not to exceed a total of 550 hours in any one school year. Through such employment, the teacher or school employee may earn up to 50 percent of the annual compensation payable under the employing district's salary schedule for the position or positions filled by the retiree, given such person's level of experience and education, without a discontinuance of the person's retirement allowance.

- The district did not require all post-retirement employees to prepare timesheets, and as a result could not track compliance with the 550 hour requirement. For example, the district pays some retired employees a monthly salary under the assumption they will work the full 550 hours allowed. However, for two of four salaried employees we reviewed the district did not require time records, so the district was unable to determine actual hours worked. The district should ensure the full 550 hours are worked if a retired employee is paid a monthly salary.
- The district did not retain adequate documentation to support the determination of gross pay for some retired employees. As a result, the district is unable to demonstrate compliance with annual requirements regarding gross pay for all employees.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

According to PSRS and Public Education Employee Retirement System (PEERS) guidance,² employers are required to maintain records to track hours worked and wages earned for each retiree hired. The retirement systems can request to review records and if limits are exceeded, a person's retirement benefits can be put on hold.

2.3 Related employees

A list of related employees and Board members is not maintained, and the district has not established adequate policies and procedures for the hiring, supervising, and tracking of related employees. For example, the Director of HR provides approval on employment related actions for his wife, who is also an employee of the district. Numerous other instances of related employees and Board members also exist.

The absence of data on related employees and Board members weakens internal controls and may result in conflicting situations. Identifying and maintaining documentation of related employees is important to determine and monitor conflicting related party situations.

2.4 Electronic signatures

Electronic facsimile signatures are not adequately safeguarded to prevent misuse and are not used in compliance with Board policy. Board policy provides for using electronic signatures to sign checks; however, electronic facsimile signatures for the Board President and Secretary are automatically applied to employment contracts when printed by the HR Department, which is not allowed by policy. In addition, the use of the electronic facsimiles on these documents was not subsequently approved by the actual person or by the Board.

If the Board President and Secretary are unavailable to sign employment contracts, they should subsequently document their review of records on which their signature is applied to safeguard against possible misuse. In addition, Board policy over electronic signatures should be reviewed and revised, if needed, to provide more comprehensive guidance on the use of electronic signatures.

2.5 Personnel records

Personnel records for several employees were not complete and some personnel files were maintained outside of the HR Department. During our review of personnel files, we noted necessary documentation was missing from some files including employment applications, resumes, educational

² *Working After Retirement*, Public School Retirement System of Missouri, p. 4, <<https://www.psr-peers.org/Employers/Forms-Publications.html>>, accessed October 21, 2014.

Working After Retirement, Public Education Employee Retirement System of Missouri, p. 3, <<https://www.psr-peers.org/Employers/Forms-Publications.html>>, accessed October 21, 2014.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

transcripts, employment transmittals, appraisals, and letters of resignation. In addition, employee personnel files for Maintenance, Parents as Teacher, Nutrition Service, and Hillyard Technical Center employees are maintained by those departments rather than the HR Department. Decentralized records limit the HR Department's ability to ensure necessary information is maintained in the files.

Complete personnel records should be maintained in a centralized location for all employees to provide documentation of personnel actions.

2.6 Personal use of a district vehicle

Personal use of a district vehicle by the COO is not authorized by the personnel policy or Board, nor is the usage monitored. The district reports the value of the COO's usage of a district vehicle as compensation. To counter the associated tax liability, the district annually calculates the resulting liability and pays the COO in the form of a vehicle allowance (\$720 for the 2013-2014 school year). This agreement was authorized by former Superintendent Smith and is documented in a handwritten agreement with the COO. The March 2012 agreement also includes a provision that as of the date of the agreement the COO is supposed to pay for every fourth tank of gas, but according to district officials all fuel for the vehicle is paid by the district. No other district employee has such an agreement.

The Internal Revenue Service (IRS) regulations indicate personal and commuting mileage are reportable fringe benefits and require the full value of the provided vehicle to be reported if the employer does not require the submission of detailed logs that document business and personal use. If personal use of district vehicles is considered necessary, procedures must be in place to ensure these regulations are complied with and ensure all employees are aware of any usage restrictions and treated similarly in accordance with an established policy.

2.7 Vacation leave payouts

The district does not have a policy governing vacation leave payouts made to retiring employees, nor were the payouts authorized in employment contracts or otherwise approved by the Board. In addition, the district's method for calculating unused leave payouts may have caused the district to incur unintended additional costs and district personnel did not calculate payouts consistently for all employees. Payouts are calculated based on the employees daily pay rate multiplied by the number of unused vacation days. Payouts for unused vacation leave totaled approximately \$69,000 for the year ended June 30, 2014, and according to the district's payroll records have totaled approximately \$533,000 since the 2000-2001 school year.

Daily pay rates created in the district's payroll system capture an employee's base salary or hourly wage, as well as additional compensation amounts. These daily pay rates are used when calculating some employee leave payouts possibly creating additional costs to the district. For example, upon



St. Joseph School District
Management Advisory Report - State Auditor's Findings

retiring at the end of the 2012-2013 school year, the former Superintendent received an unused vacation time payout of \$26,227 for 40 days of unused leave (\$655.57 per day). The daily pay rate used for payment of the unused leave included the former Superintendent's longevity stipend, graduation credit, and contractual annuity rather than just the base pay (\$569.51 per day). Including these amounts resulted in an additional payment of approximately \$86 per day, or \$3,440. A district official indicated the district used the system calculated daily rates because limited payroll staff do not have time to recalculate the base pay for leave payouts. However, a custodian's leave payout reviewed did not include the employee's longevity stipend in the daily rate used to calculate his payout resulting in inconsistent application of payouts among employees.

A written personnel policy outlining the procedures for vacation leave payout is necessary to ensure equitable treatment of all employees and to prevent misunderstandings. Also, to ensure additional costs and misunderstandings are avoided, the appropriate method for calculating daily pay rate should be determined and payouts for unused leave should be properly and consistently applied for all district employees.

Recommendations

The School Board:

- 2.1 Segregate payroll duties to the extent possible and implement appropriate reviews and monitoring procedures, and ensure timely tracking of compensatory time accruals.
- 2.2 Require post-retirement employees to maintain timesheets reflecting actual time worked. In addition, gross pay for post-retirement employees should be adequately documented.
- 2.3 Establish procedures to identify and monitor related employees, obtain related party information, verify information with each employee periodically, and ensure individuals are not working in conflicting employment capacities.
- 2.4 Review use of electronic signatures and the related Board policy. If needed, revise the policy to address use of electronic signatures.
- 2.5 Ensure personnel records are complete and maintained in a centralized location.
- 2.6 Establish procedures regarding the personal use of district vehicles, or reconsider allowing use of district vehicles for personal business.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

- 2.7 Establish policies regarding vacation leave payouts, ensure vacation leave payouts are calculated appropriately, and ensure the same procedures are consistently applied to all employees.

Auditee's Response

The School Board provided the following written responses:

- 2.1 *The district will segregate payroll duties as much as possible with the staff that is available. Payroll will be monitored and reviewed by the district. The district payroll accountant currently tracks the compensatory time accruals and will ensure these time accruals are updated monthly when timesheets are submitted. The district will consider a reorganization of duties to ensure sufficient monitoring, including a payroll manager function. Additionally, the district plans to implement an electronic time reporting system that will eliminate the manual tracking of compensatory time accruals. The target date for implementation of this system is 2016.*
- 2.2 *All post-retirement employees will be required to maintain timesheets that reflect actual time worked. Active retirees hours will be monitored through the sub finder system for documentation of hours worked. Retirees will also be contacted and updated on their hourly accrual. Total gross pay for post-retirement employees is currently documented in the payroll system and monitored by the Superintendent or designee (HR Director) to ensure appropriate hours are worked.*
- 2.3 *The Board will require the Superintendent or designee (HR director) to monitor and ensure individuals are not working in conflicting employment capacities. All supervisory/department directors will sign off on a supervisory list annually to document and ensure individuals are not working in conflicting employment capacities. This list will be reported to the Board annually. Names of known related employees will be brought to the Board prior to hiring.*
- 2.4 *The Board Policy Committee will review and revise the use of electronic signatures and related Board policies in consultation with the Missouri School Board Association (MSBA). New procedures will be written and implemented to match procedure revisions.*
- 2.5 *The district is currently working on a plan to gather and consolidate all personnel records in the HR office. The HR office has also created a new employee checklist to ensure completion of records. The district is researching a records system for maintaining electronic personnel records. The Superintendent or*



St. Joseph School District
Management Advisory Report - State Auditor's Findings

designee (HR Director) will monitor this process and report to the Board a recommended system.

2.6 *The district will establish and enforce procedures for personal use of district vehicles according to IRS guidelines. The district will do a comprehensive examination of the use of district vehicles for personal business and report the findings to the Board for further consideration.*

2.7 *The district has been developing a policy with the MSBA for vacation leave payouts. Once the policy is adopted by the Board the district will ensure procedures are consistently applied to all employees and will submit all vacation leave payouts to the Board for approval.*

3. Summer School Funding

The district inaccurately reported 2014 and 2013 summer school attendance to the Department of Elementary and Secondary Education (DESE) resulting in overpayment of state aid totaling approximately \$1.8 million for 2014 and \$1.7 million for 2013. Annually the district applies for approval from the DESE to hold a summer school program. District staff prepare applications based on enrollment estimates from prior years and district officials approve the applications prior to submission to the DESE. However, district staff and administrators lacked a sufficient understanding of summer school program requirements and, as a result, claimed certain types of unallowable programs for reimbursement.

The DESE determined in October 2014, the district was reimbursed for 2014 summer school attendance hours for several courses that the DESE disallowed. These disallowed courses included, but were not limited to, marching band, jazz band, various team sports activities, and several programs in which fees were charged participants including childcare, drivers' education, and YMCA swimming and camp. According to the DESE, these attendance hours were disallowed because:

- Fees were charged for the district-sponsored course and/or activity.
- The course was primarily an athletic team or band practice.
- The course was a daycare service that required fees.
- The course was offsite, charged fees, and was not a district-sponsored activity.

Working with the DESE the district identified and removed 30 unallowable summer school courses and the related 269 students' attendance hours (the district originally reported an average daily attendance (ADA) of 570



St. Joseph School District
Management Advisory Report - State Auditor's Findings

students) the district had inaccurately reported. The resulting \$1.8 million overpayment will be withheld by the DESE in future periods. In December 2014, the district submitted a corrective action plan to the DESE detailing additional procedures adopted to ensure only allowable courses are submitted for reimbursement in the future.

We reviewed prior years to determine the extent of the problem and for how many years summer school attendance may have been inaccurately reported and reimbursed. Working with the DESE and the district, we noted the district claimed similar courses and student attendance hours for 2013 summer school. We compared the 2013 summer school courses offered to the list of disallowed courses for 2014 to determine which courses would also be disallowed for 2013 and reviewed district provided attendance data to determine the unallowable attendance. Unallowable hours represent an overpayment of state aid of approximately \$1.7 million for 2013. In addition, the district has reported similar or higher summer school ADA to DESE since 2006, with summer school ADA ranging between 567 and 738 students. According to district officials, it "has offered a myriad of remedial and enrichment courses for many years." Therefore, it is possible the district has been inaccurately reporting summer school attendance for several years. Detailed course and attendance data is not available prior to 2013, so we are unable to quantify potential overpayments for prior years.

The DESE's 2014 Summer School Handbook (handbook) clearly indicates ". . . gymnastics, weightlifting, body conditioning, athletic practice, physical education (that is not part of a comprehensive physical education program), tennis, swimming lessons, study hall, computer camps, band camps, cheerleading clinics, recreation programs, athletic practices, and isolated vocal/instrumental music practices conducted under the sponsorship of the school cannot be included as part of the approved summer school program and shall not be counted for summer school membership and attendance for state aid purposes."³ In addition, the handbook further states that "State aid cannot be claimed for resident or nonresident pupils if tuition and fees are charged."⁴ Similar guidance has been available for many years. Inaccurately reporting summer school attendance resulted in the district receiving a larger portion of available funds. The district should ensure staff are aware of summer school rules to prevent future unallowable courses claimed for reimbursement.

³ *2014 Summer School Handbook*, Department of Elementary and Secondary Education, pg. 1, <<http://dese.mo.gov/sites/default/files/SummerSchoolHandbook.pdf>>, accessed December 30, 2014.

⁴ *2014 Summer School Handbook*, Department of Elementary and Secondary Education, pg. 8, <<http://dese.mo.gov/sites/default/files/SummerSchoolHandbook.pdf>>, accessed December 30, 2014.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

Recommendation

The School Board improve controls over summer school reporting, including implementing the corrective action plan, and ensure future summer school programs meet the criteria set by the DESE. In addition, the Board should work with the DESE to resolve any overpayments from the 2013 school year.

Auditee's Response

The School Board provided the following written response:

The district has submitted a corrective action plan to DESE and has established guidelines to eliminate non-allowable courses. District administrators and the summer school coordinator have reviewed the revised DESE summer school handbook and made the necessary changes. The district will annually review the DESE Summer School Handbook to ensure the district is in compliance with any changes to the summer program guidelines and that only allowable courses are submitted for reimbursement. The Board will ensure the administration works with DESE to resolve any payment issues for the 2013 school year.

4. Financial Condition4. Financial Condition

The district reduced budgeted expenditures to offset declining state funding for the 2013-2014 school year. In addition, the district's questionable expenditures discussed throughout the report and additional financial obstacles could result in a decline of the district's financial condition.

The Board approved \$3.07 million in budget reductions for the 2013-2014 school year to balance the district's budget. Cuts included reduction, elimination, or reclassification of various administrative, elementary, and secondary staff positions. At June 30, 2014, the district had a fund balance of approximately \$23.5 million in its General and Teachers Funds (approximately 21 percent of annual expenditures); however, approved expenditures (\$121 million) and transfers to the Capital Projects Fund (\$3 million) for the 2014-2015 school year are expected to exceed projected revenues (\$118 million) which would decrease the fund balance in the General and Teachers Funds by approximately \$6 million. The \$3 million projected deficit between revenues and expenditures is primarily the result of approved budgeted increases in employee salaries and benefits for the 2014-2015 school year. In addition, as discussed in MAR finding number 3, the DESE recently determined that the district received state funding for disallowable 2014 summer school courses totaling approximately \$1.8 million. As a result, DESE plans to withhold \$1.8 million from future district funding payments. Also, the district's 63 cent tax levy will sunset in August 2015, and if not renewed the district estimates losing approximately \$6.5 million in annual revenues, which would have a significant impact on the district's financial condition in subsequent years.

The district made several questionable expenditures that if continued may worsen the situation and should be avoided in the future. As discussed in



St. Joseph School District
Management Advisory Report - State Auditor's Findings

MAR finding number 1, the district awarded significant stipends without Board approval and approved some promotions/raises that were not consistent with approved salary schedules or contracts. In addition, the district sold bonds through negotiated sales instead of competitively (see MAR finding number 5.3), did not always procure goods and services in a competitive manner (see MAR finding number 6), and incurred some unnecessary expenditures (see MAR finding numbers 8.2, 9.2, and 10).

It is essential the Board monitor the district's financial condition, both in the immediate- and long-term future. The Board should also pay special attention to disbursements, eliminate unnecessary spending, and evaluate controls and management practices to ensure efficient use of district resources.

Recommendation

The School Board closely monitor the district's financial condition and expenditures, improve controls and management practices, and take appropriate actions as necessary.

Auditee's Response

The School Board provided the following written response:

The Board will closely monitor the financial condition of the district. The district plans to fully implement the findings of the audit to improve controls and management practices. The specific measures completed, ongoing, or in progress are discussed in more detail as responses to specific concerns addressed in the findings of this audit report.

5. Bonds

Improvement is needed in the handling of bond projects and methods for issuing bonds.

Background

District voters approved a \$42 million general obligation (GO) bond issue in April 2012. Approved bonds totaling \$35,720,000 have been sold as of June 30, 2014, in 4 separate issuances beginning in September 2012. Some of the GO bond issuances qualified under the Qualified Zone Academy (QZA) bond program.

The QZA program is a federal program available to school systems that provides the bondholder with a federal tax credit in lieu of a cash interest payment. A district must have a source of funding available (a voter approved GO bond) before applying with the DESE to have its bonds approved for the QZA program. The QZA program funds are restricted by federal regulations to repairing and renovating existing buildings, acquiring new and more up-to-date equipment, developing educational programs, and training quality teachers, although state law only authorizes bond monies to be spent for the first two of these four areas.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

Our review of the district's procedures for monitoring bond projects and program compliance requirements identified various concerns.

5.1 Qualified Zone Academy bonds

The district is not complying with QZA program requirements. The district has issued QZA bonds twice since 2012, with a total issuance of \$3.85 million.

For the Series 2013 issuance totaling \$2.72 million, the district has not kept appropriate accounting records separately accounting for all QZA revenues and expenditures (the district maintained separate records for the 2012 QZA issuance). As a result, the district was unable to readily identify all 2013 QZA issuance expenditures. District records tracked overall spending of bond monies by project, but not by type of bond issuance, and the district used multiple bond issuances for the projects. Failure to spend 100 percent of QZA bond proceeds for qualified expenditures within 3 years could also result in the district forfeiting unused proceeds.

The QZA program requires separate accounting to ensure bond proceeds are used as intended and in compliance with program requirements. To ensure bond monies are spent for the intended purposes and within the required timeframes, the district should separately track the QZA proceeds and expenditures.

5.2 Monitoring

The Bond Compliance Officer did not report on compliance with the district's Tax and Securities Law Compliance Procedure to the Board in 2013 as required. The procedure requires the Bond Compliance Officer (the district CFO) to complete an annual compliance checklist for the purpose of identifying potential bond noncompliance and report at least annually to the Board regarding compliance with the procedure. The Board received the last completed compliance report and checklist on November 2, 2012.

Bond covenants and district procedures require monitoring of bond compliance. Without timely annual reporting by the Bond Compliance Officer, the district cannot adequately monitor and ensure compliance, timely identify noncompliance, and take appropriate corrective action if needed.

5.3 Bond financing

The district sold GO bonds in 2012 and 2013 totaling \$31,870,000 through negotiated instead of competitive sales. The district issued the bonds to acquire, construct, renovate, furnish, and equip school facilities. The Board did not select the bond underwriter competitively and used the same underwriter used in 2 previous refunding bond issues in 2004 and 2005. The district sold the bonds privately to the underwriter instead of seeking open bids, which would ensure the most competitive rate of return for the taxpayers. The underwriter, George K. Baum & Company, was paid \$104,592.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

The State Auditor's office completed a statewide review of GO bond sales practices⁵ that determined negotiated bond sales historically result in increased interest costs. While Missouri law does not require competitive bond sales or competition in selecting bond underwriters, the historically lower interest costs on competitive sales suggest such sales to be in the best interest of the district.

Recommendations

The School Board:

- 5.1 Ensure separate accounting for bond proceeds and expenditures by bond issuance type and project.
- 5.2 Require annual timely compliance reporting.
- 5.3 Pursue open competition in any future bond sales.

Auditee's Response

The School Board provided following written response:

- 5.1 *The Superintendent or designee (CFO) will ensure separate accounting for bond proceeds and expenditures by bond issuance type and project. The Superintendent or designee (CFO) will report these proceeds and expenditures periodically along with interest earned to the Board. New budget units have been established that will allow for separate accounting of QZA Bond expenditures.*
- 5.2 *The Superintendent will ensure both the CFO and Director of Finance are trained in the process of compliance reporting. It is proposed that this reporting take place by the April Board meeting each year. The Superintendent or designee (CFO or Director of Finance) will provide an annual compliance report to the Board by the April Board meeting.*
- 5.3 *The district recognizes there are various options of how debt obligations are marketed to the ultimate investor. At the time the district next issues debt, a thorough analysis by the Superintendent or designee (CFO) will be made as to what is in the best interest of the district to market its debt obligations, with due consideration given to a competitive process.*

⁵ Report No. 2013-116, *General Obligation Bond Sales Practices*, issued in November 2013.



6. Procurement Procedures and Construction Projects

Procurement and construction project policies and practices need improvement.

Board policies DJC and DJF require district staff to research purchases and compare prices prior to expending district funds. Competitive bidding is required for construction expected to exceed \$15,000 and for insurance contracts, bank depository services, and other products and services as required by law. Other purchases or contractual services may be advertised and bid as directed by the Board or Superintendent. If bids exceed \$15,000, Board approval is required. When formal bidding is required bids must be solicited from at least 3 vendors. In addition, district policy requires solicitation of quotes from at least 3 vendors for single order purchases or purchases of a single item from one vendor of greater than \$5,000 and less than or equal to \$15,000. A sole source justification form must be completed for all sole source purchases of greater than \$5,000.

6.1 Bidding

The district did not bid, obtain quotes, or document sole source justification for several purchases. In addition, Board policy does not require competitive bidding or Board approval for all purchases exceeding \$15,000 and does not address the need to bid supplies purchased from one vendor that may exceed \$15,000 within a specified time period.

During our review of select disbursements made during the 2013-2014 school year we noted purchases of playground equipment (\$69,627) and lockers (\$15,060) were not bid, nor were quotes obtained. In addition, the district did not always obtain bids or quotes for P card purchases (see MAR finding number 9.2) and fuel purchases (see MAR finding number 12). Also, district personnel indicated a 3D printer purchased for the technical center to allow students access to and learn the basics of 3D printing (\$45,730) was a sole source procurement, but this information was not documented as required.

Competitive bidding not only ensures the district is complying with Board policy, but also helps ensure all parties are given an equal opportunity to participate in district business. In addition, Board policy should be amended to ensure all large purchases of goods and services are competitively bid.

6.2 Professional services

The district has not established comprehensive policies for procuring professional services. Current Board policies only apply to certain services, such as engineering services as discussed in section 6.3.

The district did not solicit requests for proposals or document sole source justification for several professional services including special education services (\$264,760), professional development services (for 2 vendors totaling \$179,434), behavior consultation and training services (\$56,000), physical therapy services (\$42,252), occupational therapy services (\$39,964), interpreter services (\$23,946), homeless students transportation



St. Joseph School District
Management Advisory Report - State Auditor's Findings

services (\$19,830), and specialized legal services (\$13,907). Also, the district has not reissued requests for proposals for its primary legal counsel (\$55,648) since 2002.

Periodically soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the district to make better-informed decisions to ensure necessary services are obtained from the best qualified provider, taking expertise, experience, and/or cost into consideration. Documentation of sole source procurements is necessary to ensure the validity and propriety of such procurements, and demonstrate compliance with district policy.

6.3 Engineering services

The district did not procure mechanical engineering services for air conditioning projects in 2012 and 2014 as required by Board policy and state law.

The district used the same mechanical engineering firm for air conditioning projects in 2012, 2013, and 2014, but only obtained Requests for Qualifications for the 2013 projects. Per the COO, the district piggybacked on the 2013 evaluation process using the same local firm for the 2014 projects and did not request or evaluate statements of qualifications for the 2012 or 2014 projects. In addition, the COO indicated having completed the 2012 projects also helped the firm win the award for the 2013 projects. Payments for these services for the 2012, 2013 and 2014 projects totaled approximately \$415,300 thru June 30, 2014.

Board policy states the Board may select qualified firm(s) and negotiate contract(s) for engineering services for the various building projects in the school district. When considering the need for engineering services a written description of the desired services shall be prepared. Interested firms may be requested to submit statements of their qualifications, performance data, and/or a fee schedule. Selection shall be made on the basis of demonstrated competence and qualifications for the types of services specified by the district at fair and reasonable prices. In addition, Sections 8.285 to 8.291, RSMo, provide requirements for the selection of engineering services.

6.4 Solar panels

Several problems exist with the handling of the district's solar panel project.

Bidding and documentation

The district negotiated solar panel costs with the vendor awarded the project rather than competitively bidding the project. In addition, the district does not have documentation justifying some decisions related to this project.

On September 5, 2013, the Superintendent, COO, and CFO presented information to the Board Finance Committee from Brightergy, an energy company, regarding the potential for the installation of solar panels throughout the district that would save the district as much as \$40,000



St. Joseph School District
Management Advisory Report - State Auditor's Findings

annually in utility costs. Brightergy proposed a 20-year lease/purchase agreement at a cost of approximately \$1.98 million, after which the district would own the solar equipment outright. On September 9, 2013, the Board approved the administration pursuing further talks with Brightergy.

On October 7, 2013, an update was given to the Finance Committee indicating legal counsel was reviewing the draft contract. On October 14, 2013, in closed session, the Superintendent and COO discussed with the Board the possibility of competitive bidding, requests for proposal (RFP), or doing the project in-house by hiring local contractors through a competitive process that would install solar panels purchased by the district. On November 1, 2013, in closed session, the Superintendent updated the Board on the in process contracts with Brightergy. At this session, the district legal counsel discussed the possible risks of proceeding without a formal RFP and noted that although a formal RFP was not issued the district had contacted 2 local vendors and received proposals from them as well.

The quotes from Brightergy and the 2 local vendors included various lease purchase options ranging from 5 to 20 years with cost estimates ranging from approximately \$671,000 to \$1.98 million. According to district officials, these quotes were much higher than anticipated and all 3 were subsequently rejected. As a result, district officials attempted to determine the estimated cost of the project if the district purchased and installed the solar panels. After suggesting to the vendors that they were considering doing the project in-house, district officials asked the same 3 vendors for new quotes. The second round of quotes received included various lease purchase options ranging from 5 to 10 years with costs estimates ranging from \$362,500 to \$1.37 million. In addition, the district would turn over to the vendors local utility rebates estimated at \$1.8 million that the district was expected to apply for and receive. To earn the rebates, \$2 per watt of electrical energy produced from the solar panels, the district had to first install the solar panel systems.

Per a district official, immediate action was required to qualify for the local utility rebates or the district risked losing the opportunity to secure the rebates. As a result, at the November 1, 2013, Board meeting the Board authorized the solar service and easement agreement with Brightergy. Brightergy's negotiated cost of \$362,500 is comprised of 5 annual lease payments of \$72,500 after which the district can renew the lease for consecutive one-year terms, with the annual lease payments increasing 2 percent for each additional term after the first renewal term, or purchase the solar equipment at "market value." Total estimated project costs, after the rebates, were \$2,156,500.

As of June 30, 2014, no lease payments had been made, but the district has applied for, received, and remitted local utility rebates totaling \$1 million to



St. Joseph School District
Management Advisory Report - State Auditor's Findings

the vendor. According to district officials, as of January 2015, the solar panel projects have been completed to the extent possible. District officials stated, the district did not install solar panels on some buildings because the projects were not approved prior to the expiration of the rebate program or funding.

In addition, documentation is lacking as to why the solar panel project included the (1) Noyes and Hall elementary schools scheduled for closure after the 2013-2014 school year and (2) Child Development Center (CDC) owned by the St. Joseph School District Foundation (a legally separate charitable not-for-profit corporation). According to the CFO, solar panels were likely installed at Noyes Elementary because the district plans to repurpose this building and cost savings would be realized in 3 to 5 years. For Hall Elementary, the district has no plans to repurpose this property but the CFO believes the installation of solar panels may increase its resale value. He indicated if not sold, the cost of these solar panels could also be recouped in 3 to 5 years. For the CDC, the CFO indicated the district leases a portion of the building and pays the entire utility bill so cost savings would again be ultimately realized, assuming the district continues its lease. No documentation was retained to demonstrate this reasoning.

Prevailing wage

The district did not require payment of prevailing wages on the solar panel project. The original agreement signed with Brightergy in November 2013 did not require payment of prevailing wages. According to documentation provided by the CFO, Brightergy did not believe it was required to pay prevailing wage because the company was installing the solar equipment and leasing it to the district, however, Brightergy agreed to comply. As a result, an amended solar service and easement agreement was drafted by and signed by the district in April 2014 stating that the district relied on representations from the vendor to the district that prevailing wages were not required and as a result, the vendor agreed to hold harmless the district against any potential liability for not following the law. However, the district was unable to provide a fully executed copy of this contract. In addition, it is ultimately the district's responsibility to ensure prevailing wages are paid on all district projects.

Conclusion

Negotiating costs with vendors does not allow for competitive bidding and may provide an advantage that other vendors did not receive. When evaluating quotes or bids and determining whether to enter into a contract, documented justification outlining reasons for decisions should also be maintained. Planned improvements should be carefully analyzed to ensure they are reasonable and for only necessary school purposes. Without clearly documented justification for decisions made it is not possible for the Board to make an informed decision. Section 290.230, RSMo, requires prevailing wages be paid to all workers employed by or on behalf of any public body, who perform construction work projects other than routine maintenance.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

Section 290.250, RSMo, requires the public body awarding the contract to include a stipulation to the effect that not less than the prevailing hourly rate of wages shall be paid.

6.5 Project files

The district does not maintain complete project files. Our review of select project files noted the district does not maintain bid documentation for bidders not receiving the bid award. District personnel summarized the bids on documents presented to the Finance Committee and Board, but did not retain any other bid information for non-winning bidders to support this information and their recommendations. In addition, the district did not maintain affidavits of publication for construction bids in the project files.

Complete project files are necessary to document district's decisions and activities related to project planning and administration and to demonstrate compliance with legal, contractual, and bidding requirements. In addition, Section 177.086, RSMo, requires public advertisement of bids for construction projects exceeding \$15,000.

Recommendations

The School Board:

- 6.1 Competitively bid purchases in accordance with Board policies and state law and document justification for sole source procurement. In addition, the Board should amend Board policies to ensure all significant purchases of goods/services are subject to a competitive selection process.
- 6.2 Periodically solicit proposals for professional services in accordance with district policies.
- 6.3 Comply with district policy and state law when awarding engineering service contracts.
- 6.4 Competitively bid projects to ensure project costs are reasonable and document all decisions and justification for the decisions made. The Board should also require prevailing wages be paid on all district projects.
- 6.5 Ensure adequate supporting documentation is retained in project files, including affidavits of publication.

Auditee's Response

The School Board provided the following written response:

- 6.1 *The Board established a Board Policy Committee in July 2014. The Committee reviewed its purchasing policies to ensure the proper expectation and interpretations were established. The Board will continue to approve all purchases greater than \$15,000 and will*



St. Joseph School District
Management Advisory Report - State Auditor's Findings

consider revisions to the policy if needed. The district will ensure all policies and state laws are followed when awarding contracts or purchases. In August 2014, the Deputy Superintendent and Internal Auditor provided purchasing training according to the district Financial Handbook to all district administration and secretarial staff.

- 6.2 *The Board will review and revise policies, if necessary, related to bidding professional services. The district will solicit proposals for professional services every 3 years, which will ensure the sensible use of district funds.*
- 6.3 *The Board established a Board Policy Committee in July 2014. The committee reviewed the district's purchasing policies to ensure the proper expectation and interpretations were established. The Board will continue to approve all purchases greater than \$15,000 and will ensure all policies and state laws are followed when awarding such contracts.*
- 6.4 *The district will competitively bid projects when required and will thoroughly discuss, examine, and document these decisions when projects are considered. The Board will request updates on these projects periodically. The district will ensure prevailing wages are being paid on all district projects through proper Board and administrative oversight.*
- 6.5 *The administrative team will review and revise procedures to ensure supporting documentation is appropriately retained. The district will retain all supporting documentation including affidavits of publication in project files. All project files will be consolidated to one location for proper documentation.*

7. Contracts

District controls over contracts need improvement.

7.1 Contract compliance

The district does not always monitor contracts effectively, enter into written contracts when appropriate, or enter into written contracts timely.

- The district has not required its transportation service provider to comply with fuel contract requirements. Under the contract, buses should achieve a fuel efficiency of seven miles per gallon. If this efficiency is not achieved, the school district receives a discount. If the buses are more fuel efficient, the district is required to pay the contractor for the difference. To determine the fuel efficiency, the contract states the transportation service provider will ". . . calculate the difference between gallons of fuel delivered and gallons of fuel used



St. Joseph School District
Management Advisory Report - State Auditor's Findings

based on one gallon of fuel for each seven miles of qualified pupil transportation service." The service provider did not bill or pay the district based on the results of any fuel efficiency calculations for the 2013-2014 school year. The district paid \$3,318,972 for transportation services during the 2013-2014 school year, including \$371,633 for fuel.

- The district did not require a special education service provider to submit (1) an assurance statement that it was organized and operated in accordance with written policies and procedures, (2) written confirmation of employee background checks, (3) a quarterly updated list of personnel and their qualifications, (4) proof of insurance, and (5) an evaluation of the program or services performed at the end of the term of the agreement as required in the master service agreement. In addition, the separate contracts detailing the timeframe of services provided to each student expired and the district had not approved new contracts or contract amendments. One of these student service contracts also was not amended to reflect an increase in the base monthly rate for provided services from \$5,750 to \$5,975. The increase became effective in September 2012. The district paid \$264,760 for these services during the 2013-2014 school year.
- The district did not require the City of St. Joseph to submit invoices for school resource officers in compliance with contract provisions. According to the contract, the city shall bill the district by March 31st for the following year's services and payment is due by the end of January of that year. The district received the invoice for the 2013-2014 school year on March 27, 2014, and paid it on March 31, 2014. However, according to the contract, services for the 2013-2014 school year should have been billed by March 31, 2013, and paid by January 31, 2014. In addition, the district has not named the city as an additional insured on its general liability insurance for any claims of bodily injury or property as required by contract. The district paid \$137,807 for these services during the 2013-2014 school year.
- The district did not enter into a written contract for transportation of homeless students. In addition, the district no longer requires trip tickets from the vendor for reconciliation to invoices. The district also did not require the vendor to provide evidence that it performed background checks on all of its drivers. The district paid \$19,830 for these services during the 2013-2014 school year.
- In April 2013 the Superintendent entered into a professional development services agreement with a vendor at a cost of \$90,800 (plus travel expenses), subsequent to signing his Superintendent's contract in February 2013, but prior to his start date with the district in July 2013. The agreement was not approved by the Board. In addition,



St. Joseph School District
Management Advisory Report - State Auditor's Findings

the district was unable to locate a subsequent signed written contract from September 2013 with this vendor for professional development at an additional cost to the district of \$21,800. The district entered into several written agreements with this vendor for training, consulting, and a keynote speaking engagement during the 2012-2013 and 2013-2014 school years. Payments to this vendor totaled \$141,737 during the 2012-2013 and 2013-2014 school years.

- The district did not enter into a timely written contract for food services management. The provider began providing services in January 2014, but the contract was not signed by the President of the Board until April 2014. The district paid \$1,572,319 for these services during the 2013-2014 school year.
- The district's primary legal services contract has not been amended to reflect increases in the annual retainer totaling \$12,888. The September 2002 contract authorized a \$15,000 retainer; however, district personnel indicated due to increased scope and time devoted to the district for legal services the annual retainer increased periodically over the last 12 years and currently totals \$27,888. The district paid \$55,648 for legal services from this vendor during the 2013-2014 school year.
- The Superintendent signed a contract for professional development services and authorized the initial payment for services before the Board authorized the administration to enter into the contract. On February 10, 2014, the Board authorized the agreement; however, the contract was signed by the Superintendent on January 1, 2014, and the first payment of \$18,000 was made to the service provider on January 17, 2014. The district paid \$37,697 for these services during the 2013-2014 school year.
- The district did not enter into fully executed contracts for (1) interpreter services and (2) behavior consultation and training services before the contractors provided the services. The interpreter services contractor provided services beginning July 2013, but the contract was not signed until October 2013. The district made the first payment for behavior consultation and training services on September 6, 2013, but the contract was not signed by the service provider until September 15, 2013. The district paid \$23,946 for interpreter services and \$56,000 for behavior consultation and training services during the 2013-2014 school year.

Clear, detailed, and timely written contracts, including reporting requirements and provisions to allow for proper monitoring, are necessary to ensure all parties are aware of their duties and responsibilities, prevent misunderstandings, and ensure district monies are used appropriately and



St. Joseph School District
Management Advisory Report - State Auditor's Findings

effectively. Closely monitoring contractor performance and compliance with contract terms is important to ensure limited district resources and assets are used wisely and that expectations of the Board and the public are met. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

7.2 Affirmations

The district did not obtain statutorily required affirmations from 5 service providers. Required affirmations include the service providers' attestation to their enrollment and participation in the federal work authorization program (E-Verify) and that they did not knowingly employ any unauthorized aliens in connection with the contracted services.

Section 285.530, RSMo, requires, as a condition for the award of any contract in excess of \$5,000 by a political subdivision, the business entity shall affirm its enrollment and participation in E-Verify and that it does not knowingly employ any person who is an unauthorized alien in connection with the contracted services.

Recommendations

The School Board:

- 7.1 Establish procedures to properly monitor contract requirements, and enter into timely written contracts defining services provided and benefits received.
- 7.2 Ensure compliance with federal work authorization program requirements.

Auditee's Response

The School Board provided the following written responses:

- 7.1 *All contracts will be consolidated in the Business Office for official keeping and monitoring. The district will periodically review contracts to ensure compliance.*
- 7.2 *The Business Office will continue to pull monthly reports for every vendor the district spends \$5,000 or more with to ensure the district has appropriate documentation on file for compliance with federal work authorization programs. The Superintendent or designee (CFO and internal audit function) will monitor and ensure compliance.*

8. Disbursements

District disbursement controls need improvement.

8.1 Board approval

District officials do not present a list of bills paid to the Board for review and approval. In addition, the Board did not approve numerous large



St. Joseph School District
Management Advisory Report - State Auditor's Findings

purchases and contracts prior to payments, some of which were not bid as discussed in MAR finding number 6.

District purchasing policies allow the Superintendent or designee to authorize payment of bills. The Board then gives its final approval to bills paid by approving the monthly financial statements at its regular meetings. A list of bills paid is also available in the Business Office, but this list is not provided to or reviewed by the Board. These procedures failed to prevent some questionable disbursements or ensure disbursements complied with district purchasing policies.

8.2 Disbursements

Our review of disbursements identified several concerns. We reviewed 50 disbursements totaling approximately \$970,000 for school years 2012-2013 and 2013-2014.

- The district negotiated a settlement of over \$87,000 with its contractor for bakery goods and produce after prematurely terminating the contract for the 2013-2014 school year. District officials indicated the contract was terminated because the district's new food management service provider would not continue to honor this contract. However, the terminated contract was in place prior to the approval of the new food management services contract and should have been part of those negotiations. Had the prior contract been a part of the RFP, the contract termination and subsequent settlement could have been avoided.
- Payment of the Superintendent's "add-on" Sam's Club business membership (totaling \$45), sponsored by the district, seems unnecessary and not beneficial to the school district.
- District personnel coded several purchases to incorrect accounts. For example, they coded approximately 100 Apple TVs purchased at a total cost of \$9,900 to supplies rather than equipment. The district purchased these items to allow teachers to project content from their iPads.
- District personnel did not submit invoices for 3 expenditures timely to the Business Office for payment, resulting in late fees.

Public funds should be spent only on items necessary and beneficial to the district. In addition, proper coding of transactions ensures actual expenditure information for the various accounts is accurate in comparison to budgets. Also, invoices should be submitted to the business office timely to avoid payment of late fees.

8.3 Alternative Certification

The district does not have a written policy regarding the alternative certification program. In addition, approval for participation in the program is not documented. We also identified the district paid \$5,490 for one



St. Joseph School District
Management Advisory Report - State Auditor's Findings

employee to receive alternative certification, however, the employee never became certified because he failed or dropped out of some of his classes. This employee's contract was not renewed for the 2014-2015 school year. For the 2 years ended June 30, 2014, the district paid tuition totaling approximately \$62,800 for 13 employees.

The alternative certification program offers a nontraditional method to obtain teacher certification by allowing individuals to teach while completing their certification requirements. The school district pays for these employees' tuition. Participants in this program must receive approval from the Director of HR; however, this approval is not documented. In addition, IRS reporting guidelines indicate educational assistance exceeding \$5,250 annually is generally considered an employee fringe benefit, if not exempted as a working condition fringe benefit. The district did not report any of these payments as taxable fringe benefits or document justification for not reporting them as such.

Without a written policy, it is not clear the purpose of the program is being met, who is eligible for the program, and the requirements for continuation in the program. A written alternative certification policy should include provisions for employee eligibility, the approval process, and related IRS guidelines. The district could prevent paying tuition for employees that did not complete necessary courses by reimbursing individuals for tuition expenditures after course completion.

Recommendations

The School Board:

- 8.1 Provide additional oversight of disbursements, including approving a monthly list of bills paid.
- 8.2 Refrain from expending district funds on items that do not clearly benefit the district, ensure expenditures are coded to the proper accounts, and process invoices timely to avoid paying late fees.
- 8.3 Develop a written policy for the alternative certification program.

Auditee's Response

The School Board provided the following written responses:

- 8.1 *In July 2014, the district began posting and submitting all bills and credit card transactions to the Board for approval. The district also posts all bills and credit card transactions on the district website for added transparency.*
- 8.2 *The Board and administration will review Board Policy DA, Fiscal Responsibility, to address expending district funds on items that do not directly benefit the district. The Superintendent or designee*



St. Joseph School District
Management Advisory Report - State Auditor's Findings

(CFO and Director of Finance) will ensure expenditures are coded to the proper accounts, and process the invoices in a timely manner. The district's internal audit function will periodically review for late payments and improper coding and report findings to the Board.

8.3 *The district has chosen to discontinue the alternative certification program as of July 2014. The district will continue the alternative certification program for employees enrolled prior to the 2014-2015 school year. If the Board chooses to reinstate the program, a policy will be developed outlining the necessary requirements.*

9. Purchasing Cards

The district does not monitor or limit purchasing card (P card) monthly cycle limits and P card procedures did not detect some inappropriate purchases.

9.1 Purchasing limits

The district does not monitor monthly P card purchasing limits and limits for some individuals are excessive. The district determines the monthly limits when the cards are issued, but does not periodically reevaluate the limits.

As of April 2014, the district had 154 P cards assigned to various personnel, departments, and schools throughout the district, and annual P card expenditures exceed \$2.7 million. Monthly cycle limits range from \$1,000 to \$50,000. However, an analysis of employees' P card usage determined many employees had monthly cycle limits significantly greater than necessary to cover their typical actual purchases. For example, we identified an employee with a monthly cycle limit of \$25,000, but between July 1, 2012, and May 5, 2014, the employee's largest single purchase was \$3,783 and highest total purchases in any month were \$5,400. For this time period, we noted several employees with no or very little P card activity.

Excessive or unneeded limits and purchasing ability create greater risk of abuse and potential large liabilities for the district. To strengthen controls over P cards, the district should periodically compare the actual P card activity of each employee to established monthly cycle limits. Adjustments to the limits and/or the number of active cards should be made accordingly to reduce the district's risk to an acceptable level.

9.2 Purchases

We identified several concerns during our review of P card transactions. We reviewed purchases totaling approximately \$90,000 from 10 P cards during the 2012-2013 and 2013-2014 school years. The District Purchasing Card Process Manual (Process Manual) sets forth district policies for use of P cards.

- Employees purchased items specifically prohibited by the Process Manual. These purchases included local merchant gift cards for the



St. Joseph School District
Management Advisory Report - State Auditor's Findings

district's wellness program for distribution to participating employees (\$27,970), teacher appreciation gift cards (\$525), and cell phone equipment (\$650).

- We identified several purchases that appear unreasonable and/or do not appear to benefit the school district.
 - Travel to a January 2014 Superintendent's summit in Tampa, Florida (\$814) in which the district paid for the Superintendent's wife, also a district employee, to attend. The organizers of the summit reimbursed the district \$400 for the Superintendent's basic costs of attendance. However, there did not appear to be a clear benefit to the district for the wife's attendance.
 - The emergency purchase of a replacement cell phone at full cost (\$650).
 - The purchase of a 3D Smart TV (\$1,900), when a less expensive TV could have been purchased for the intended use.
 - Furniture (\$3,378) purchased for the COO's office and conference room, including a \$1,560 painting.

The Process Manual requires the employee to supply justification for a purchase deemed inappropriate by the school or department official reviewing and approving the transactions. The district did not deem any of these expenditures inappropriate or require justification.

- We identified several large P card purchases the district did not bid or receive quotes for and did not obtain Board approval, including: a spa tub used by high school athletes (\$19,900); wellness program gift cards (\$27,970) discussed above; and a high school club's trip to New York (\$19,744). We also noted district personnel made routine supplies purchases from several vendors totaling more than \$15,000 each during the 2013-2014 school year. These supply purchases included automotive (\$81,988), tires (\$21,987), paint (\$19,994), and welding gas (\$18,027).

The Process Manual specifically states P cards are not intended "to avoid or bypass appropriate purchasing or payment procedures" (see MAR finding number 6.1).

- We identified several purchases without adequate supporting documentation. In some instances, only a credit card charge slip was submitted rather than a detailed invoice or receipt slip.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

- o Documentation for trips, meals, or services provided did not include information about the individuals participating in the activity. For example, we noted a receipt indicating purchase of 3 breakfast buffets (\$50), but only the Superintendent and his wife were listed in attendance.
- o District personnel did not submit supporting documentation for \$2,315 of \$27,970 in wellness program gift cards distributed to participating employees.
- o A hotel invoice (\$290) submitted to support a transaction was for an employee from another school district and the district paid the invoice without noting the error. The correct invoice was ultimately provided after our inquiry.
- Cardholders did not sign the invoice to document approval for 7 purchases reviewed.
- The district could not locate 2 Visa Purchasing Cardholder Account Action Request forms authorizing cardholder use of the card and card limits. In addition, the cardholders did not sign the P Card cardholder agreement forms for these 2 P Cards and 1 additional card to acknowledge the P Card terms and conditions for proper use.

According to the district Process Manual, appropriate documentation such as sales slips, cash register receipts, invoices, order forms, and receiving documents must support each purchase. In addition to being required by the Process Manual, proper detailed supporting documentation improves the district's ability to review charges and provides better documentation of items purchased to ensure charges are reasonable and in accordance with established policies. In addition, taxpayers have placed a fiduciary trust in the Board to spend public funds only on items necessary and beneficial to the district.

Recommendations

The School Board:

- 9.1 Evaluate the need for each P card issued and adjust employee P card limits as deemed appropriate.
- 9.2 Ensure prohibited purchases are not made with P cards and P card purchases are reasonable and prudent uses of public funds. In addition, the Board should ensure P card purchases follow purchasing policies, adequate documentation is submitted and maintained, approval is obtained for all P card transactions, and all P cards are properly authorized.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

Auditee's Response

The School Board provided the following written responses:

- 9.1 *The Superintendent or designee (CFO) will evaluate the need for existing P cards. The district will consider adding P card coordinator responsibility to an existing position if determined appropriate. These same individuals will adjust any employee limits for appropriate levels.*
- 9.2 *At the start of the 2014-2015 fiscal year, the Internal Auditor and Deputy Superintendent met with all building administration and all secretarial staff to review the P card manual. During this time, prohibited purchases were covered. All P card purchases are posted online for monthly approval and then posted to the district website for public viewing, which demonstrates transparency and the appropriate use of taxpayer dollars. The Superintendent or designee (CFO and internal audit) function will monitor P card purchases on a routine basis and report to the Board any purchases considered inappropriate.*

10. Cell Phones, Tablets, and Internet Service

The district's controls over cell phone and tablet usage need improvement. In addition, the district unnecessarily provided free Internet service to several individuals. In 2014, the district provided approximately 70 cell phones and 20 tablets to various employees at a cost of approximately \$73,900 and paid for high speed Internet service at 16 individuals' homes at a cost of approximately \$7,650.

- The district does not adequately monitor cell phone use to determine if usage is appropriate, necessary, and of benefit to the district. The Technology Department issues cell phones to district employees and authorizes call plans, while the Business Office receives and processes cell phone bill for payment. According to both Technology Department and Business Office representatives, neither reviews the bill to determine if usage or additional charges are appropriate. As a result, unnecessary costs may be incurred. For example, we reviewed the district's February 2014 cell phone bill and noted several overcharges, including an overcharge of \$46.40 for exceeding text message limits and sending several international text messages.
- The district unnecessarily provided free high speed Internet services and related equipment, in the homes of select Board members, the Board Secretary, the Superintendent, select district administrators, a previous Board member, the construction manager who is not an employee, and another individual that district officials do not know. District officials do not recognize the name on the invoices and do not know why they are paying for his Internet service. The annual cost of providing these services varied depending on the connection speed, ranging from



St. Joseph School District
Management Advisory Report - State Auditor's Findings

approximately \$400 to \$900 per individual for the year ended June 30, 2014.

The district has paid for Internet services since at least 2000 at a total cost of approximately \$99,400 according to district accounting records. Per district officials, these services were approved many years ago when the district began using the Internet and electronic communications. The district has not evaluated the need to continue to pay for these services. Without a documented need, the disbursements seem inappropriate and unnecessary. In addition, IRS reporting guidelines indicate the costs of providing Internet service may be considered an employee fringe benefit, but the district did not report these expenses as such.

As of November 2014, the district canceled the service for the unknown individual and are in the process of canceling all Internet services for Board members and employees, except for that of their network administrator. In addition, the district received a refund from the Internet service provider totaling approximately \$1,110 for services the district unnecessarily provided for the previous Board member and the unknown individual between October 2012 and May 2014.

- The district's policy on personal use of district provided electronic devices is not consistent. For cell phones, the district requires a small monthly payroll deduction between \$26 and \$31, depending on the plan, to ensure compliance with IRS regulations for limited personal use of a district provided device. However, a similar policy does not exist for personal use of district provided tablets (primarily iPads).

To ensure the efficient and effective use of cell phones, district officials should routinely monitor cell phone use patterns and ensure the most cost-effective plan is used. In addition, adequate review procedures are needed to ensure unnecessary costs are avoided. Also, to ensure district funds are used prudently, the district should refrain from providing unnecessary Internet service in the future. To ensure consistency regarding personal use of district provided electronic devices, district policy should be expanded to cover tablets.

Recommendation

The School Board require monitoring and review procedures over cell phone use. In addition, the Board should refrain from providing unnecessary Internet service in the future and should adopt a consistent policy regarding personal use of district provided electronic devices.

Auditee's Response

The School Board provided the following written response:

In July 2014 the Director of Technology began reviewing cellular phone usage and data plans and made necessary adjustments. The Director of



St. Joseph School District
Management Advisory Report - State Auditor's Findings

Technology will continue to monitor cellular and data usage and report findings to the Board on a routine basis. The Board has discontinued all district provided Internet service for all personnel except for the network administrator. The district will recommend a consistent personal usage policy to the Board Policy Committee for consideration.

11. Capital Assets

The district's controls and procedures over capital assets are not sufficient. The district's independent CPA reported similar control weaknesses in its fiscal year 2013 audit report dated November 8, 2013. At June 30, 2014, the district had approximately \$126 million in capital assets.

- The district does not maintain complete and accurate records of capital assets. The Business Office and Technology Department maintain separate listings (the Technology Department separately tracks technology assets), neither of which is up to date or complete. The results of the last physical inventory conducted by the district, in February 2013, had not been entered into the district's asset tracking system maintained by the Business Office as of spring 2014. In addition, the listing maintained by the Technology Department has not been updated for more than 6,000 Chromebooks purchased between February and May 2014 at a cost of approximately \$1.7 million to replace older equipment. As a result, district assets are more susceptible to theft or misuse.
- Periodic physical inventories of assets are not performed. As noted above, the last physical inventory conducted by the district was in February 2013. A physical inventory was not conducted in 2014.
- During our review of expenditures, we noted a painting (see MAR finding number 9.2) and playground equipment and student lockers (see MAR finding number 6.1) had not been tagged or recorded as capital assets. We also noted several other items purchased that were tagged but not recorded as capital assets, including printing equipment. District officials indicated the printing equipment was tagged by the schools the equipment was delivered to, but the schools never reported the tag numbers to the Business Office.

The district's capital asset procedure manual requires periodic physical inventories on all capital assets with the results reconciled, coordinated, and reported by the Business Office. The district needs to perform a physical inventory of all property and maintain adequate capital asset records to ensure better internal control over district property and provide a basis for determining proper insurance coverage on district property. Capital asset records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

Recommendation

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

Auditee's Response

The School Board provided the following written response:

The district agrees detailed capital asset records and annual physical inventories are needed to secure better internal control over district property. The district will annually train and update the staff on accurate capital assets records and maintenance. The Superintendent or designee (CFO) will annually provide a capital assets report to the Board. The current inventory system is being revised for appropriate functionality. Once the new inventory management system is implemented, a full physical inventory will be performed and compared to detailed records. The district Administrators will monitor and ensure the new process is fully implemented as well as provide routine updates to the Board.

12. Fuel Use and Controls

Controls and procedures over fuel use and purchases need improvement. The district maintains fuel pumps for maintenance and warehouse vehicles and most district buses used to transport students with disabilities. The remaining district buses are fueled at a local gas station using a fuel card. The district contracts for all other student transportation and per contract terms purchases the fuel for the contractor's buses, with that fuel being stored at the contractor's main base of operation.

- The district does not bid fuel purchased for district-operated vehicles and buses, even though the district bids fuel used for contractor operated school buses. Fuel purchases for district-operated vehicles and buses totaled approximately \$230,000 for the year ended June 30, 2014.
- District personnel do not periodically reconcile fuel purchased to usage for district-operated vehicles and buses. In addition, fuel pumps are not periodically recalibrated.

Documentation provided by the district shows the former Superintendent reviewed fuel usage from May 2011 thru February 2012 and noted various concerns. However, her concerns were not addressed. Also, an internal audit of district fuel purchases and usage for the 2012-2013 school year subsequently identified a shortage of approximately 4,000 gallons of gasoline (i.e. more gallons used than recorded in usage logs). Questioning by the Internal Auditor led the district, in May 2014, to hire a firm to check the calibration on fuel pumps. The firm determined the fuel pump calibration was off by 12 percent, accounting for the missing fuel. District officials indicated they were not aware if the pumps had ever been recalibrated.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

- Access to district fuel pumps is not restricted between 6 a.m. and 5 p.m. Monday through Friday. Pumps remain on during this time and the fenced lot securing them is not locked. In addition, at least 38 district employees have keys to open the fuel lot gate when it is locked.

Competitive bidding helps ensure all parties are given an equal opportunity to participate in district business. In addition, failure to monitor fuel purchases, reconcile fuel used to fuel purchased, periodically recalibrate fuel pumps, and limit access to the fuel pumps and fuel lot could result in theft and misuse going undetected.

Recommendation

The School Board solicit bids for all fuel purchases. In addition, the Board should ensure (1) a documented periodic reconciliation of fuel purchased to fuel used is performed, and any significant discrepancies are investigated, (2) fuel pumps are periodically recalibrated, and (3) access to the fuel lot and pumps are appropriately limited.

Auditee's Response

The School Board provided the following written response:

In July 2014, the district implemented the procedure of soliciting bids from the local fuel vendors. The bids are documented and filed and unless the low vendor is delayed for an unreasonable time, the low bidder is chosen. In January 2015, the district installed a digital unleaded fuel pump and software. With the software in place, the system will be very accurate and daily/weekly reports will be kept on file and monitored by the Director of Operations. In addition, the pumps will be calibrated two times a year, in accordance with state recommendations. Finally, the lot is only open during operating hours (6 a.m. to 5 p.m., Monday through Friday) and also monitored by security cameras. The unleaded fuel pump can now only be operated by the "key" possessed by employees.

13. Sunshine Law

The School Board did not always comply with the Sunshine Law and held numerous improper closed meetings.

13.1 Closed meetings

The Board held approximately 40 closed meetings from January 2012 through June 2014, but did not always follow various requirements of Chapter 610, RSMo (the Sunshine Law).

- The Board approved a list of reasons for going into a closed session at an open meeting in several instances, but only discussed some of these topics in the closed meeting. For example, minutes of the February 10, 2014, open meeting indicated a closed meeting would be held to discuss legal; real estate; hiring, firing, disciplining or promoting of employees; specifications for competitive bidding; sealed bids; individually identifiable personnel records, performance ratings or records pertaining to employees or applicants for employment; and, individually



St. Joseph School District
Management Advisory Report - State Auditor's Findings

identifiable personnel records. However, the closed meeting minutes did not document any discussion of real estate, bidding, or sealed bids. In addition, the Board met on occasion in closed session and the only documented discussion was the approval of prior closed meeting minutes.

- The Board discussed some topics in closed meetings that are not allowable under the Sunshine Law. According to minutes of closed meetings, unallowable topics included scholarship awards, construction project updates, and department updates. The Board also discussed items in closed session that may be unallowable and did not maintain sufficient documentation to demonstrate how these issues were allowable under the Sunshine Law. Some of these issues included the creation of new or additional positions, lighting issues at an elementary school, the academic calendar, and block scheduling.

To ensure compliance with state law and the public is accurately informed, the Board should only cite reasons for going into closed session it plans to discuss, restrict discussion in closed meetings to the allowable topics listed in the Sunshine Law, and adequately demonstrate how topics comply with the Sunshine Law for discussion in closed session.

13.2 Public disclosure

The Board does not always make public the final disposition of legal matters or contracts discussed and approved in closed meetings. The Board approved the settlement of two lawsuits during the 2 school years ending June 30, 2014. The district's financial responsibility in one of these settlements, a terminated contract, was \$87,500. The other resulted in a \$100,000 settlement paid by the district's insurance provider to a former employee. In addition, the district agreed to pay family health insurance premiums of the former employee until she was Medicare eligible, which was approximately 17 years. The Board did not publicly disclose the final resolutions.

The Board also voted on and approved some contracts in closed session and did not subsequently disclose those votes in an open meeting or by other means. For example, on December 21, 2012, the Board approved an amended and restated contract for the former Superintendent. Also, on February 10, 2014, the Board voted to ratify the additional duty stipends granted administrators in August 2013, and authorized the Superintendent to reissue extra duty contracts.

Section 610.021, RSMo, requires any minutes, vote or settlement agreement relating to legal actions, causes of action or litigation involving the district or any agent or entity representing its interests or acting on its behalf or with its authority, including any insurance company acting on behalf of the district as its insured, be made public upon final disposition of the matter



St. Joseph School District
Management Advisory Report - State Auditor's Findings

voted upon or upon the signing by the parties of the settlement agreement, including the terms of the settlements. The section also requires the Board to disclose in open session or by other means the approval of all contracts.

Recommendations

The School Board:

- 13.1 Cite specific reasons for going into closed meetings only for topics it plans to discuss, and ensure items discussed in closed meetings are allowable topics under state law and adequately demonstrated as such.
- 13.2 Ensure the final disposition of legal matters discussed at closed meetings and all votes to approve contracts are made public as required by state law.

Auditee's Response

The School Board provided the following written responses:

- 13.1 *The Board will cite the reasons for going into closed meeting under Missouri Sunshine Law and will ensure that topics discussed in closed meeting are allowable topics under state law.*
- 13.2 *The district will ensure the release of the final disposition of legal matters and all votes as required by law.*

14. Computer Controls

Controls over district computer systems are not sufficient to prevent unauthorized access. As a result, district records are unprotected and susceptible to damage or theft. In addition, the district does not periodically test its backup data or have a disaster recovery plan.

14.1 Password controls

The district has not established adequate password controls to reduce the risk of unauthorized access to computer systems and data. Passwords are required to authenticate access to computer systems. However, passwords are not required to be changed on a periodic basis to help ensure they remain known only to the assigned user and to reduce the risk of a compromised password.

The security of a password system is dependent upon keeping passwords confidential. However, since passwords do not have to be periodically changed, there is less assurance passwords are effectively limiting access to computer systems and data files to only those individuals who need access to perform their job responsibilities. Passwords should be unique and confidential and changed periodically to reduce the risk of unauthorized access to and use of systems and data.

14.2 Backup data

The district does not periodically test its backup data. Data backups are performed daily and stored at a secure off-site location, but periodic testing



St. Joseph School District
Management Advisory Report - State Auditor's Findings

of the data for adequacy is not performed. As a result, backup data for the district's financial and email systems and all student related information may not be available for restoring systems following a disaster or computer failure.

To help prevent loss of information and ensure all essential district information and computer systems can be recovered, backup data should be tested periodically.

14.3 Disaster recovery

The district has not developed a disaster recovery plan to ensure it can promptly restore computer operations in the event of a natural disaster or other major disruptive event.

A comprehensive written disaster recovery plan should include plans for a variety of disaster situations and specify detailed recovery actions required to reestablish critical computer and network operations. In the case of a disaster or other disruptive event, such documentation can reduce confusion and provide a framework for the uninterrupted continuance of operations. Once a disaster recovery plan has been developed and approved, the plan should be periodically tested and reviewed.

Recommendations

The School Board:

- 14.1 Require a unique password for each employee that is confidential and periodically changed to prevent unauthorized access to district computer systems and data.
- 14.2 Ensure backup data is tested on a regular, predefined basis.
- 14.3 Develop a comprehensive disaster recovery plan and periodically test and evaluate the plan.

Auditee's Response

The School Board provided the following responses:

- 14.1 *The district has provided a unique password for each employee that is confidential and the district will implement a 90-day change password policy for executive administration.*
- 14.2 *In November 2014, the district developed a plan for safeguarding backup data and testing it in the disaster recovery plan. This information can be found on page 17 of the Technology Disaster Recovery Plan.*
- 14.3 *The district developed a Technology Disaster Recovery Plan in November 2014. The plan was developed by the Director of Technology and will be tested for the first time in March 2015 by*



St. Joseph School District
Management Advisory Report - State Auditor's Findings

the district and further tested on an annual basis (unless otherwise noted in the plan).

15. Restricted Funds

District officials could not locate original documents supporting donor gifts and related fund restrictions and all restricted funds designated for scholarships are not maintained by the district's Business Office.

- The district could not locate adequate records for 2 funds district officials believe should be restricted. Because district officials cannot find information related to the donors' original intentions, they believe the funds are restricted but are unsure. District officials allowed monies from one of these funds, approximately \$5,400, to be moved to a high school activity fund account in 2012 for the purchase of stage curtains. District officials authorized using interest earnings from the other fund, which has a balance of approximately \$42,000, to purchase supplies for the nursing program.
- According to the Controller, in the 2007-2008 school year, district Business Office personnel asked all schools to relinquish control of individual scholarship funds for deposit into a centralized account to simplify tracking of the funds and preparation of the district's annual financial statements. However, during our review of school activity funds we identified 4 schools currently in the possession of scholarship funds with a balance totaling approximately \$26,900 as of June 2014. The Controller was not aware the schools maintained these funds.

Adequate records of donor gifts are necessary to ensure that funds are used to fulfill the donor's intentions. In addition, without centralization of funds restricted for scholarship activities investing, award, tracking, and financial reporting activities may not be consistent.

Recommendation

The School Board ensure adequate records are maintained of each donor's intentions for restricted funding and ensure all individual scholarship funds are turned over to the business office for consistency. In addition, the Board should review the funds thought to be restricted to determine how fund balances and interest should be spent in the future, and document those decisions.

Auditee's Response

The School Board provided the following written response:

The district will implement appropriate procedures and training to ensure adequate records on restricted funds are maintained. These fund balances will be presented by the Superintendent or designee (CFO) to the Board who will determine how they should be spent.



16. School Stores

School store controls need improvement. District middle and high school students operate school stores as a fundraising activity and to provide the student workers life skills. Students run stores under the supervision of a store sponsor (teacher). The stores sell various school spirit apparel and accessories, school supplies, beverages, snacks, candy, and ice cream. The stores are open at varying times before, after, and/or during school and may also operate during various sports functions. We performed site visits at a middle school and a high school and reviewed each school's procedures related to the operation of its school store.

- At the high school store, school personnel did not use functions available in the point of sale system used to record sales and maintain inventory balances. Instead, school personnel operated the system as only a cash drawer to collect payments from customers and provide change if necessary. In addition, school personnel also did not conduct periodic physical inventories to reconcile the inventory to merchandise sales and purchases. Also, school personnel did not prepare sales reports to reconcile with daily deposits.
- At the middle school store students use a cash register. However, school personnel did not run cash register tapes to record daily sales, so sales could not be reconciled to deposits. In addition, school personnel did not maintain perpetual inventory records or conduct periodic physical inventory counts.

Loss, misuse, or theft of school store inventory may go undetected without adequate inventory records and documented reconciliations. Effective inventory internal controls require maintaining perpetual records of all inventory items and reconciling the balances obtained during physical inventory count to the balances recorded on the perpetual inventory records. In addition, to properly account for all sales and ensure monies are accounted for properly and deposited, sales reports or cash register tapes should be generated and reconciled to monies collected and deposited. To provide additional educational value to the students working in the school stores, students should be taught how to operate the stores with effective internal controls and fully utilize systems and/or equipment.

Recommendation

The School Board ensure procedures are developed to utilize available system functions to (1) periodically reconcile inventory on hand to the sales and purchases of school store items and merchandise and (2) reconcile daily sales records to deposits.

Auditee's Response

The School Board provided the following response:

Building principals will ensure all school stores maintain inventories and reconcile inventory purchases and sales. The internal audit function will



St. Joseph School District
Management Advisory Report - State Auditor's Findings

monitor school stores inventories and, audit inventory purchases and sales and report findings to the Board annually. Building principals will ensure school stores record and reconcile daily sales to deposits. The internal audit function will monitor school stores records and report findings to the Board annually.

17. Internal Audit

The district's Internal Auditor did not report directly to the Board and was not independent of all activities audited. The Internal Auditor did not perform an annual risk analysis, audit plan, or prepare written reports following up on prior recommendations. The internal auditor position is currently vacant and responsibilities for this position have been assumed by the CFO.

If utilized properly, the internal audit function can assist management in performing its duties more efficiently and effectively. In addition, the internal audit function can enhance the district's annual external audit by providing valuable information to those auditors and ensuring the district has strong internal controls and accounting procedures in place. An effective internal audit function could have helped in discovering and/or resolving many of the accounting and procedural control weaknesses, and policy and compliance issues addressed in this report.

17.1 Reporting structure and independence

The Internal Auditor did not report directly to the Board, but rather the Superintendent and/or CFO. In addition, the Internal Auditor was also the district's Controller and was not independent of all activities audited.

Internal auditing standards provide that internal audit activity is to be independent and should ". . . report to a level within the organization that allows the internal audit activity to fulfill its responsibilities."⁶ To ensure complete and objective audit coverage, the internal audit function must be independent of the activities it audits. Direct communication between the internal auditor and the Board would help ensure independence and provide a means whereby the Board can be kept abreast of current operations and activities. Such a reporting structure would also permit the Board to request the internal audit section perform specific audits.

17.2 Risk assessment and audit planning

The Internal Auditor did not perform an annual risk assessment or develop an annual audit plan. The Internal Auditor issued approximately 8 reports annually as her schedule allowed.

⁶ *International Standards for the Professional Practice of Internal Auditing*, The Institute of Internal Auditors, <<https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf>>, pg. 4, accessed January 5, 2015.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

The Internal Auditor did not plan audits performed in advance as part of a formal audit plan or based on an evaluation of risk. Audits typically included schools selected for review on a rotation basis every few years. The Internal Auditor also performed audits at schools with new bookkeepers shortly after their hire to ensure the bookkeeper was adequately performing his/her assigned duties. The Internal Auditor selected other audits as issues arose or came to her attention.

Internal auditing standards provide that an internal audit plan "must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process."⁷

17.3 Follow-up of recommendations

The Internal Auditor did not always perform follow-up work on the status of internal audit report recommendations and did not prepare a written report when this occurred. To benefit from the internal audit function, recommendations should be properly followed up to evaluate the implementation status. In addition, to allow the Board to effectively monitor audit recommendation implementation, the internal auditor should prepare written reports supporting the follow-up work performed.

Recommendations

The School Board:

- 17.1 Ensure the internal auditor is independent of the activities audited and reports directly to the Board.
- 17.2 Ensure an annual internal audit plan, based on a risk-based methodology, is reviewed and approved.
- 17.3 Ensure written reports are prepared following up on internal audit recommendations.

Auditee's Response

The School Board provided the following written responses:

- 17.1 *The Board will evaluate and implement an internal audit function that is independent and reports directly to the Board.*
- 17.2 *The Board will ensure an annual internal audit plan is reviewed and approved.*

⁷ *International Standards for the Professional Practice of Internal Auditing*, The Institute of Internal Auditors, <<https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf>>, pg. 9, accessed January 5, 2015.



St. Joseph School District
Management Advisory Report - State Auditor's Findings

17.3 The Board will ensure the preparation of written internal audit reports and that any recommendations are presented to the Board for follow up.

St. Joseph School District

Organization and Statistical Information

The St. Joseph School District is located in Buchanan County.

The district operates three senior high schools (grades 9-12), four middle schools (grades 7-8), 16 elementary schools (grades PK-6), a technical center, an alternative school, two learning centers, and a media center. Enrollment was 11,493 for the 2013-2014 school year. The district employed 2,173 full- and part-time employees at June 30, 2014.

For fiscal year 2014, the district's revenues in the General, Special Revenue (Teachers), Debt Service, Bond Capital Projects, and Other Capital Projects funds totaled \$124,416,417, while expenditures from these same funds totaled \$137,916,734, leaving the district with a combined fund balance at June 30, 2014, of \$57,094,454.

The St. Joseph School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

School Board

An elected board acts as the policy-making body for the district's operations. The Board's seven members serve 6-year terms without compensation. Members of the Board at June 30, 2014, were:

Brad Haggard, President
Martin Rucker, Vice -President
Dan Colgan, Member
Dennis Snethen, Member
Chris Danford, Member
Lori Prussman, Member
Kappy Hodges, Member

Superintendent

The district's superintendent at June 30, 2014, was Fred Czerwonka. His total compensation for the 2013-2014 school year was \$236,847 including \$190,000 in annual salary, a \$12,000 tax-sheltered annuity, a transportation allowance of \$6,000, a moving allowance of \$10,000, stipends totaling \$14,473, and an additional \$4,374 to cover the employee portion of his medical insurance premiums. The superintendent's compensation is established by the Board; however, stipends and medical insurance premiums were not included in the compensation approved by the Board.