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Missouri State Auditor

The School District of Springfield, R-XII



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CITIZENS SUMMARY

Findings in the audit of the Springfield R-XII School District

Health Benefit Trust Fund Financial Condition	The district's self-funded medical plan fund is in poor financial condition because the district did not adequately fund and monitor the plan's operating costs. Total estimated liabilities exceeded total assets by approximately \$3.3 million, a significant decrease since its fiscal year 2009 ending reserve balance of \$4,473,490.
Accounting Controls over Cash Receipts and Change Funds	Improvements are needed in the district's handling of meal, student activity, athletic event, and concession receipts. The district does not adequately segregate accounting duties; maintain sufficient records of monies received; properly secure and promptly transmit and deposit receipts; or collect unpaid student and athletic event fees. In addition, the district provides cash advances for meal expenses on travel, but does not adequately track or account for these amounts. Due to the numerous control weaknesses, there is less assurance monies have been handled and accounted for properly.
Bond and Lease Financing, Projects, and Long-term Planning	The district sold bonds and certificates through a negotiated sale, rather than a competitive sale and has used the same underwriter since 1991. In addition, the district's bond underwriter also acts as its financial advisor. The district overspent the 2006 bond proceeds by \$1.84 million. Change orders were not managed properly, procedures and records are not sufficient to ensure prevailing wages are paid, and the district lacked written comprehensive long-range plans for new construction, renovation, and space management.
Real Estate Transactions	Significant concerns were noted with the district's efforts to sell the old Hickory Hills School property. Despite the buyer's failure to make required payments and meet other contractual obligations, the district has entered into multiple agreements to extend the buyer's obligations to later dates. The latest agreement provides for the district to finance a significant portion of the purchase price. As of December 2011 the district has only received \$97,500 of the total \$4,450,000 purchase price. The district did not always obtain recent appraisals when appropriate and paid \$258,060 over the appraised value for land without documenting its reasons.
Procurement Procedures	Over two years, the district paid \$596,104 for legal services, but does not have a written agreement in place, and has used the same attorney for 25 years without periodically requesting proposals. The district did not follow its own procedures for evaluating and selecting engineering and surveying services. The district awarded certain contracts based, at least in part, upon donations given/promised by the contracted vendors. Some district bid specifications appeared to limit potential bidders unnecessarily.
Contracts	The district did not always enter into written contracts and did not adequately monitor some contracts. The district entered into several service contracts that cost the district a substantial amount each year without always performing cost analyses.

Fuel Use and Charter Bus Services	Controls and procedures over fuel use and purchases need improvement. In a 2 year period, the district spent more than \$500,000 on charter buses but lacks adequate policies and procedures for determining whether a district bus should be used instead.
District Compensation and Vehicle Allowances	The district lacks adequate policies and procedures regarding stipends and does not always enter into employment contracts when appropriate. The district does not document the basis for monthly vehicle allowances.
Payroll Controls, Procedures, and Records	Personnel records for some employees were not complete. Payroll duties are not adequately segregated, and the district lacked appropriate procedures to ensure amounts paid to the substitute services vendor are proper. The district has not established adequate policies and procedures regarding related employees.
Disbursements	The district needs to improve various disbursements policies and procedures, maintain adequate documentation, and pay invoices timely.
Accounting Controls and Procedures	The district needs to improve its control over signature stamps, facility rental procedures, and inventory duties. Some district policies are not adequate and complete.
Sunshine Law Issues	The district did not always comply with the Sunshine Law. The district held 31 closed meetings during the 2 years ended June 30, 2011, but did not follow all requirements and conducted business at retreats. Procedures and documentation related to Sunshine requests and fees need improvement.
School Safety	The district needs to improve its policies and procedures regarding background checks for volunteers, vendors, and contractors.
Internal Audit Function	The district does not currently have an internal audit function and did not follow up on many recommendations made by the former internal auditor.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	The district was awarded \$25,027,400 during the audit period, most of which was spent on salaries to retain jobs. More detail is contained in the Organization and Statistical Information section of the audit report.
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*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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THOMAS A. SCHWEICH

Missouri State Auditor

To the Board of Education
The School District of Springfield, R-XII

The State Auditor was petitioned under Section 29.230, RSMo, to audit the School District of Springfield, R-XII. We have audited certain operations of the district in fulfillment of our duties. The district engaged Daniel Jones and Associates, Certified Public Accountants (CPAs), to audit the district's financial statements for the years ended June 30, 2010 and 2011. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended June 30, 2010. At the time of our audit, the CPA firm's audit of the year ended June 30, 2011, was not complete. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 2011. 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, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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 School District of Springfield, R-XII.



Thomas A. Schweich
State Auditor

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The School District of Springfield, R-XII

Management Advisory Report

State Auditor's Findings

1. Health Benefit Trust Fund Financial Condition

The Health Benefit Trust (HBT) Fund is in poor financial condition because the district did not adequately fund and monitor the operating costs of its self-funded health plans or programs.

The district implemented a self-funded medical plan in October 1990. The district contracts with a third-party administrator (TPA) to review, process, and pay claims, and a stop-loss insurer to cover individual claims exceeding \$250,000. Currently, monthly medical premiums and 50 percent of dental premiums are paid by the district for employees. Employee spouses and families may be covered for an additional premium paid by the employee. Retirees are responsible for their premiums. All premium rates are set by the School Board. All premiums are held in the HBT Fund, and claims and other costs related to the medical and dental plans and wellness programs are paid from this fund.

Financial condition

Total estimated liabilities of the HBT Fund exceeded total assets by approximately \$3.3 million as of June 30, 2011, and our projections indicate subsidy of the HBT Fund with other district funds may be required as early as September 2013.

Total assets and the amount necessary to cover the estimated liabilities for unpaid claims (the reserve balance) have significantly deteriorated from fiscal year 2009 to 2011. The chart below presents HBT Fund revenues, expenditures, assets, estimated liabilities, and reserve balances for the 3 years ended June 30, 2011. These amounts are reported on monthly financial reports which district officials use to monitor HBT Fund activity.



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	Year Ended June 30,		
	2011	2010	2009
Beginning total assets	\$ 7,778,461	11,816,326	14,813,810
Revenues			
Medical contributions and premiums	18,135,585	17,604,237	17,118,334
Dental contributions and premiums	897,565	727,145	685,820
Federal grant (1)	1,049,133	0	0
Stop loss insurance proceeds	804,457	30,403	150
Other and interest	22,775	139,067	289,604
Total revenues	<u>20,909,515</u>	<u>18,500,852</u>	<u>18,093,908</u>
Expenditures			
Medical claims	22,108,102	20,227,496	18,809,995
Dental claims	1,326,184	1,217,963	1,143,086
Premiums and fees	1,048,147	989,022	1,025,807
Wellness and other costs	115,976	104,236	112,504
Total expenditures	<u>24,598,409</u>	<u>22,538,717</u>	<u>21,091,392</u>
Ending total assets	4,089,567	7,778,461	11,816,326
Estimated liability for			
unpaid claims	7,342,836	7,342,836	7,342,836
Reserve balance	<u>\$ (3,253,269)</u>	<u>435,625</u>	<u>4,473,490</u>

(1) Federal grant was received for one year only.

While medical and dental claims have routinely exceeded premiums paid by the district and employees since fiscal year 2008, the School Board did not increase employee premium rates or make other changes to plan benefits to control costs until September 2010. In 2007 and 2008, the School Board approved changes to the medical plan which also contributed to the decline of the HBT Fund. These changes included providing dental benefits to employees, increasing wellness benefit payments to each employee, providing \$100,000 annually for wellness programs, and providing an employee assistance plan (EAP) costing \$53,669 annually. These changes were made without increasing district contributions or employee premiums. Further, the additional costs incurred by the HBT Fund for the increased wellness benefit payments and added dental plan were not adequately tracked and monitored by the district.

Financial information and reserve balance

HBT Fund financial statements are reviewed and approved by the School Board each month; however, these reports are not always accurate. The amount reported on the financial statements as an estimated liability for



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unpaid claims, totaling approximately \$7.3 million, has not been periodically updated to reflect current conditions and the same amount has been presented on the statements since July 2008. We also noted other discrepancies between information presented on the fund financial statements and district financial records. As a result, monitoring of the fund is less effective and the district has less assurance that assets are sufficient to cover estimated liabilities. At our request in August 2011, the Chief Financial Officer (CFO) provided a more current estimated liability for unpaid claims of approximately \$8.6 million as of June 30, 2011. Based on this information the deficit reserve balance as of June 30, 2011, is approximately \$4.5 million, instead of the \$3.2 million deficit presented above and in the reports to the Board. The district also has not established a minimum reserve balance (the amount of assets necessary to cover the estimated liability of unpaid claims) for the HBT Fund or procedures to monitor this balance and address any deficiencies.

Actions taken

In September 2010, the School Board approved changes to the medical and dental plans (effective January 1, 2011) to improve the financial condition of the HBT Fund. These changes included increasing employee deductibles, increasing co-insurance percentages and maximum out of pocket expenses, increasing premiums for spouse and family coverage, requiring employees to pay 50 percent of dental premiums, and reducing the amount of out of network claims allowed. According to information presented to the School Board by the finance department, these changes would result in annual savings of approximately \$2.2 million.

Planning

Written comprehensive long-range plans for the HBT Fund have not been prepared. While estimated savings were calculated for the changes made in September 2010 (noted above), the district did not project the results of these savings/changes to future years to ensure the changes were sufficient to improve the financial condition of the HBT Fund. Based upon the anticipated savings calculated by the district and the historical activity of the HBT Fund, we project fund assets along with revenues will not be sufficient to cover fund expenses and the district may be required to subsidize the HBT Fund with other district funds as early as September 2013. Failure to adequately plan for future needs could result in a continued decline of the financial condition of the HBT Fund and may require the district to subsidize the HBT Fund.

Conclusion

It is essential the School Board continue to address the HBT Fund financial condition both in the immediate- and long-term future. Documented long-term planning is essential to ensure HBT Fund resources are sufficient to cover liabilities and improve the fund's financial condition. Complete and accurate financial reports and the establishment of benchmarks, such as a minimum reserve balance, are necessary for the Board to effectively monitor and make decisions regarding the fund.



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Recommendation

The School Board closely monitor the financial condition and take the necessary steps to improve the financial condition of the HBT Fund.

Auditee's Response

The School Board provided the following written response:

We have taken the following actions:

- *Premium increases, which were approved by the School Board at the Oct. 4, 2011 meeting, will improve the financial condition of the HBT fund by increasing revenue to the fund by about \$3 million annually.*
- *We are updating the estimated liability for unpaid claims on a monthly basis.*

We plan to take the following actions:

- *We will issue an updated June 30 report each year after all accruals are complete.*
- *We will establish a minimum reserve balance.*

The financial status of the HBT fund is presented to and monitored by the School Board on a monthly basis, and in December 2007, the HBT fund balance was over \$15 million. At that time, the School Board elected to reduce the balance by increasing benefits (wellness, dental, etc.) and avoiding increases to premiums.

2. Accounting Controls over Cash Receipts and Change Funds

Significant improvements are needed in the handling of meal, student activity, athletic department, athletic event, and concession receipts and change funds. These types of receipts are at greater risk since a large portion is received in cash, there are numerous collection points throughout the various schools and administrative offices with a variety of handling and recordkeeping methods, and written guidance for standard procedures needs improvement. As a result of numerous control weaknesses, there is less assurance all district monies have been handled and accounted for properly.

We observed and reviewed procedures at various collection points throughout the district and followed up on concerns reported in internal audits. We conducted cash counts of athletic event ticket sales and concessions at Glendale High School, student activity monies and meal collections at Kickapoo High School, and athletic department receipts at the district administrative offices.

The chart below summarizes the approximate amounts and types of monies collected during the years ended June 30, 2011 and 2010, for those areas subject to our review.



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Type of Receipt	2011	2010
Meal	\$ 4,400,000	4,500,000
Student activity	3,500,000	3,400,000
Athletic department	312,000	274,000
Athletic event ticket sales	236,000	213,000
Season passes	180,000	182,000
Concessions	89,000	113,000

This information was obtained from district accounting records.

2.1 Segregation of duties

The duties of receiving, recording, and depositing monies by several different district offices and schools are not adequately segregated, and a documented supervisory review of the accounting records is not performed. Financial secretaries at various schools, athletic event ticket and concession managers at various schools, and the accounts receivable clerk at the district administrative center receive monies, and prepare and make deposits or transmittals.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, a timely supervisory review of the work performed is necessary.

2.2 Security of monies

Monies collected are not always maintained in a secure location. For example, monies collected by the district administrative athletic office were stored on a desk shelf, and monies collected at the Kickapoo High School cafeteria were stored in a walk in freezer. At the time of our cash counts, \$12,184 (\$692 cash and \$11,492 checks) and \$2,676 (\$1,655 cash and \$1,021 checks) was on hand in the athletic office and high school cafeteria, respectively. Additionally, according to district policy, student activity monies should never be kept in a teacher's classroom; however, we noted numerous instances where student activity monies were stored in unlocked desks and file cabinets in classrooms at Kickapoo High School. At the time of our cash count, student activity fees of \$6,090 (\$2,580 cash and \$3,510 check) were on hand in classrooms, locker rooms, and teacher offices. Further, some of these monies had been held for weeks or months. In addition, checks and money orders received are not always restrictively endorsed immediately upon receipt.

To safeguard against possible loss or misuse of funds and to ensure receipts are properly handled, receipts should be maintained in a secure location until deposited, and checks and money orders should be restrictively endorsed immediately upon receipt.



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2.3 Receipting and ticket procedures

Several concerns were noted regarding receipting and ticket procedures:

- Several offices or schools do not have adequate procedures in place to properly record all payments received. Receipt slips are not issued for some monies received. We noted several instances at Kickapoo High School where receipt slips were not issued for any student activity monies collected by teachers, and several instances at the district administrative offices, administrative athletic office, and Glendale and Kickapoo High School financial offices where receipt slips were only issued for cash.
- Manually issued receipt slips do not always indicate the composition of receipts (i.e. cash, check, money order), and the district does not reconcile the method of payment on the receipt slips to the composition of receipts recorded in the accounting system or on the deposit or transmittal.

According to the district administrative practices and procedures manual, receipt slips should be issued for all monies; and the type of transaction (cash or check), date, payor, amount, description of the transaction, fund, account description, account number, and number of the deposit slip should be included on the receipt slip.

- Daily meal collection reports (which represent the original record of meal receipts) prepared by lunch room cashiers are not always signed by the cashier nor is the cafeteria manager's review of the report documented.
- Prenumbered tickets are not always issued to attendees of district athletic events as required. At the athletic event we attended at Glendale High School, tickets were not issued to the ticket workers in numerical order by the ticket manager. District policy requires the ticket worker collecting monies to provide a prenumbered ticket to each attendee and for another ticket worker to collect the ticket at the entrance of the event. After completion of the event, tickets issued and collected should be reconciled to monies collected. However, we observed the ticket workers did not issue tickets to any of the attendees at the entrance. Rather, tickets were retained in the cash collection box and after the event ended, the ticket workers tore off the number of tickets needed to approximately match the amount of monies collected.

To properly account for all receipts and tickets and ensure monies are accounted for properly and deposited, official prenumbered receipt slips or tickets should be issued in numerical order for all monies received, tickets issued should be reconciled to monies collected, and the method of payment should be recorded on each receipt slip and reconciled to the composition of receipts recorded in the accounting system and deposits or transmittals. In



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addition, to provide evidence meal collections are accounted for properly, daily meal collection reports should be signed by the cashiers and reviewed and signed by the cafeteria managers.

2.4 Depositing and transmitting procedures

Numerous instances were noted where receipts were not transmitted or deposited timely and intact.

- A January 11, 2011, cash count of district administrative athletic office receipts identified 47 checks totaling \$11,492, dated between November 15, 2010, and January 10, 2011, were on hand. These monies were held and not transmitted to the district finance department until January 19, January 28, and February 10, 2011.
- A January 7, 2011, cash count of concession receipts at Glendale High School identified cash on hand of \$3,552. No deposits of concession receipts had been made since December 13, 2010, even though five athletic events had been held. In addition, only \$3,108 of the monies on hand were subsequently deposited on January 12, 2011. The concession manager indicated he kept some monies out for a change fund and to purchase supplies; however, he did not retain documentation of the amount of the change fund or supplies purchased.

We also noted the concession manager had previously used concession receipts to reimburse his wife (a non district employee) for purchases made using her personal debit card. Further, the district does not require the concession manager to maintain inventory records of concession items purchased, sold, and on hand, which could be reconciled to monies collected.

- A May 12, 2011, cash count of student activity fees at Kickapoo High School identified a \$100 check dated March 2, 2011, which was not transmitted by the sponsor to the financial secretary until May 16, 2011. Additionally, the sponsor indicated a portion of the monies collected were used to purchase water and pizza for the event, rather than being transmitted to the financial secretary for deposit. Numerous other instances were noted where student activity fees were not transmitted intact and timely.

According to district policy, all monies collected shall be deposited within 24 hours of receipt.

- Several personal checks of district employees were cashed from district receipts at Glendale and Kickapoo High Schools and at the administrative athletic office. During cash counts conducted on January 7, January 11, and May 12, 2011, and our review of the related deposits, we noted personal checks of district employees were cashed from district receipts.



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In addition, one of the secretaries at Kickapoo High School borrowed monies from district receipts to purchase lunch and placed an IOU in the money box. The assistant school principal indicated she was aware employees borrowed money from district receipts to purchase lunch.

- Cash refunds were made from district receipts at Kickapoo High School by various student activity sponsors and the librarian without adequate supporting documentation.
- Some district receipts are handled by several employees before deposit, and there is not always adequate documentation to support the transmittal of monies from one district employee to another. For example, the transmittal of athletic event ticket sales from the athletic event ticket seller to the ticket manager and then to the high school financial secretary is not documented. Additionally, some elementary schools transmit collections to the school cafeteria manager to store in the cafeteria manager's safe. While a chain of custody transmittal is prepared by the elementary school financial secretary to track monies turned over to the cafeteria manager; we noted only 15 of 42 transmittals were signed by the cafeteria manager documenting receipt of the monies.
- District policy requires two signatures on every deposit slip prepared by ticket managers (the signature of the ticket manager and the signature of an independent reviewer); however, our review of 34 swimming meet deposits during the year ended June 30, 2010, identified 31 deposit slips with only one signature (ticket manager) and another 3 deposits signed by both the ticket manager and swimming coach, who are married to each other. Additionally, we reviewed eight additional deposit slips related to cash counts conducted on January 7 and January 11, 2011, of athletic events and the athletic office and none of the deposit slips were signed.

The failure to transmit and deposit monies intact and timely and properly document such procedures increases the risk of theft or misuse of funds.

2.5 Student activity funds

Accounting controls and procedures over district student activity funds need improvement. While the district has a written policy for student activity funds, the policy does not address the types of records which should be maintained and the accounting procedures to be followed by the sponsor of each student activity and fundraiser. Some of the problems we identified include:

- Our cash counts showed very little or no documentation was retained to support amounts collected by teachers/sponsors for student activities at Kickapoo High School. Additionally, the transmittal forms prepared by



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the teachers/sponsors for the school financial secretary were not always retained by either the teacher/sponsor or the financial secretary. Most teachers/sponsors indicated if transmittal forms were prepared or any records were maintained of the student activity, the records were destroyed after the event or at the end of the school year. As a result, the district has little assurance student activity fees were accounted for properly.

- Checks for student activity fees (from parents) were often made out to the teacher/sponsor/coach or the payee was left blank, which could allow the teacher/sponsor/coach to negotiate the checks personally.

To provide guidance to student activity sponsors and properly account for student activity monies, the district should amend its student activity policy to address records to be maintained and procedures to be followed by the sponsor of each student activity. In addition, accounting records should be retained to ensure the validity of transactions and provide an audit trail to account for all monies received.

2.6 Cash advances

Policies and procedures over cash advances need improvement. The district provides teachers, sponsors, and coaches cash advances for meal expenses when school organizations or teams are traveling. While the district has adopted informal procedures requiring the teachers, sponsors, and coaches to submit supporting documentation after their return or require students to sign for monies received, the procedures are not always followed. For example, one teacher obtained a cash advance of \$7,840 on June 11, 2010, to take 28 students on a trip from June 12 to June 19, 2010. The teacher indicated he gave \$280 cash to each student to spend on meals. On July 7, 2010, the finance department notified the teacher he had only submitted receipts signed by students for monies totaling \$2,240 and requested the remaining \$5,600 of signed receipts be submitted. The remaining receipts were not turned in by the teacher until after August 17, 2010, about 2 months after the cash advances were given to the students. Further, the district does not track the amount of cash advances issued to district employees and was unable to provide us a report of all cash advances.

The district should re-evaluate current practices and procedures for providing, tracking, and accounting for cash advances to ensure all cash advances are appropriately monitored and accounted for properly. Further, the district should determine if a more secure method of payment could be used.

2.7 Tournament of Champions

Adequate procedures have not been established by the administrative athletic office to account for admissions to the Tournament of Champions (TOC), a basketball tournament sponsored by the district and held at Missouri State University (MSU). Admissions to the TOC totaled over \$336,000 during the 2 years ended June 30, 2011.



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Admissions are collected at the district (in the administrative athletic office and by various district coaches), through the MSU ticket office, and at the door of the event. Un-numbered tickets are used and several complimentary tickets are given away and are not tracked by the district. As a result, the number of tickets sold and given away cannot be reconciled to monies collected and deposited.

To ensure all TOC admissions are accounted for properly, the district should issue prenumbered tickets, track complimentary tickets, and reconcile tickets issued and given away to monies deposited.

2.8 Change funds

Controls over district change funds need improvement. Each school office maintains various change funds for transactions such as parking fees, identification card monies, fees for lost school property, and making change for students for vending machines. Other change funds are issued temporarily to district personnel for sporting events and student activities.

The district does not have a list of approved change funds and the authorized balances or a written policy regarding these change funds. Some change funds are not maintained at a constant amount, and some schools regularly hold monies out of district receipts to make change. In addition, adequate documentation of change funds given to/returned by district personnel for sporting events or student activities is not maintained, and some change funds were returned by an employee issuing a personal check to the district as opposed to returning actual monies remaining in the change fund.

Written policies should be established outlining the procedures for maintaining, using, and accounting for change funds. The district should also maintain a list of all authorized change funds and amounts. In addition, to safeguard against possible loss, theft, or misuse of funds, change funds should be maintained at a constant amount. Periodically, the funds should be counted and reconciled to the authorized balance by an independent person.

2.9 Unpaid student and athletic event fees

The district has not established adequate policies and procedures for unpaid student and athletic event fees, and our review showed collection efforts are not sufficient.

- Students at Kickapoo High School are sometimes requested to sign a promissory note for unpaid student fees and fines, and if these amounts remain unpaid, the high school withholds class schedules, grade cards, and diplomas from these students. District administrative offices were unaware this high school was utilizing promissory notes.

Section 431.055, RSMo, states the legal age at which a person becomes competent to contract in Missouri is 18 years; thus, any promissory note signed by a student less than 18 years of age is void.



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- Collection procedures at some schools are not adequate. For example, Kickapoo High School collects fees for identification badges and allows students to charge these fees. During the period August 24, 2010, through June 2, 2011, the high school allowed charges totaling \$5,614 and only collected \$2,656 of these fees, resulting in approximately 53 percent of these fees not being collected.
- The administrative athletic department collects entry fees from various schools for district tournaments and events, and records maintained are not adequate to track remaining amounts due. For example, during our January 2011 review of an October 2010 sporting event, the athletic department secretary could not provide documentation that two of eight participating schools had paid their \$150 entry fee.

To ensure enforceability, the district should not enter into contractual agreements, including promissory notes, with persons less than 18 years of age. To help ensure prompt collection of student and tournament fees, the district should establish formal procedures regarding the collection of unpaid fees.

2.10 Centralized collection points

The district has numerous cash collection points throughout various administrative offices and schools. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, the district should review collection procedures at all locations. Steps should be taken to identify the collection points with the greatest risk of misuse or misappropriation, and the district should make improvements to controls and procedures over these areas first. An improvement the district might consider is establishing a centralized collection point at each school, such as the school financial office, and at the administrative center in the finance department, which would aid in accounting for all monies collected by various employees in the district. The failure to use centralized collection points and adequate receipting and collection procedures results in reduced assurance all monies collected are deposited and accounted for properly.

Similar conditions previously reported

Conditions similar to sections 2.1, 2.2, 2.3, 2.4, and 2.5 were reported in internal audit reports issued in 2007 and 2008 by the district's former internal auditor. (See MAR finding number 14).

Recommendations

The School Board:

- 2.1 Segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.
- 2.2 Maintain monies collected in a secure location, and restrictively endorse checks and money orders immediately upon receipt.



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- 2.3 Ensure adequate controls and procedures are in place in all district departments/schools to properly account for all monies received.
- 2.4 Deposit all monies intact and in a timely manner, issue checks for purchases and reimbursements, discontinue the practice of cashing personal checks, periodically reconcile amounts collected for concessions to changes in concession inventory, limit and document transmittals of monies between employees, and ensure all district policies are followed.
- 2.5 Amend the student activity policy to address the types of records to be maintained and procedures to be followed by the sponsor/teacher of each student activity.
- 2.6 Reevaluate district practices and procedures for providing, tracking, and accounting for cash advances.
- 2.7 Establish procedures to account for admissions and complimentary tickets given away for the TOC.
- 2.8 Establish written procedures governing the accounting for change funds. Also, the School Board should maintain a list of each change fund and the authorized balance of each fund. In addition, the School Board should ensure the change funds are periodically counted and reconciled to the authorized balance by an independent person.
- 2.9 Discontinue the practice of entering into promissory agreements with individuals less than 18 years of age. The School Board should also establish formal collection procedures of unpaid amounts and pursue collection on a timely basis.
- 2.10 Ensure adequate controls and records are in place in all district offices and schools to properly account for all monies received, and consider establishing centralized collections points.

Auditee's Response

The School Board provided the following written responses:

- 2.1 *We plan to continue to review processes involving cash collections to determine how segregation of duties can be improved. Fully achieving segregation of duties could require hiring additional administrative personnel thus increasing annual operating costs.*
- 2.2 *We have communicated and clarified existing cash-handling policies and procedures with staff who handle cash receipts to*



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ensure money collected at, or sent into, the district athletics office is deposited within 24 hours per district policy.

We plan to take the following actions:

- We will communicate and clarify existing cash-handling policies and procedures with all other staff who handle cash receipts that all money collected must be placed in a secure location and deposited within 24 hours per district policy.*
- We will ensure that policies and procedures reflect the requirements for security of monies and the immediate restrictive endorsement of all checks.*
- We will monitor compliance with policies and procedures.*
- We will respond to any future infractions of cash-handling policies and procedures through appropriate disciplinary action.*

2.3 *We plan to take the following actions:*

- We will communicate and clarify existing receipting and ticketing policies and procedures with staff who are responsible for these transactions.*
- We will monitor compliance with policies and procedures.*
- We will respond to any future infractions through appropriate disciplinary action.*

2.4 *We plan to take the following actions:*

- We will communicate and clarify existing depositing and transmitting policies and procedures with staff who are responsible for these transactions.*
- We will monitor compliance with policies and procedures.*
- We will respond to any future infractions through appropriate disciplinary action.*
- We will review current procedures for concession inventory and determine what changes should be made.*

Adequately overseeing depositing and transmitting procedures to ensure they are strictly followed could require hiring additional personnel thus increasing annual operating costs.

2.5 *We plan to take the following actions:*

- We will improve processes for collecting and documenting the collection of student activity funds.*
- We will amend administrative practices and procedures to reflect these changes.*
- We will communicate and clarify existing and amended procedures with staff that are responsible for student activity funds.*



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- *We will monitor compliance with policies and procedures.*
 - *We will respond to any future infractions through appropriate disciplinary action.*
- 2.6 *We plan to take the following actions:*
- *We will strengthen processes to closely monitor and reconcile all cash advances.*
 - *We will monitor compliance with policies and procedures.*
 - *We will respond to any future infractions through appropriate disciplinary action.*
- 2.7 *We have reviewed existing procedures and identified ways to improve accounting for admissions to the Tournament of Champions including:*
- *We have discontinued sale of TOC tickets by district personnel except at the district high schools participating in the tournament. It is important that the participating district schools be able to offer their students and parents access to tickets so they can support their teams.*
 - *Sales of all other tickets are now managed by the ticket office at the JQH Arena on the campus of Missouri State University.*
 - *We have implemented changes including individually numbering all tickets (general admission, reserved and complimentary), including unsold tickets from high school locations.*
 - *We have implemented a process to track complimentary tickets, which will result in a final accounting of complimentary tickets as unused tickets are returned to the JQH ticket office.*
- 2.8 *We plan to take the following actions:*
- *We will review current procedures for the accounting of change funds and determine what, if any, changes should be made.*
 - *We will develop written guidelines and/or policies outlining procedures for maintaining, using and accounting for change funds.*
- Fully implementing auditor's recommendations concerning change funds could require hiring additional personnel thus increasing annual operating expenses.*
- 2.9 *We have discontinued the practice of having students under the age of 18 sign promissory notes. We plan to establish formal procedures for the collection of unpaid accounts including collection of such accounts.*
- 2.10 *We plan to take the following actions:*
- *We will review collection procedures at all locations.*



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- *We will consider the feasibility of establishing a centralized collection point at each school.*

3. Bond and Lease Financing, Projects, and Long-term Planning

Significant improvement is needed in the handling of bonds and lease financing, projects, and long-term planning.

General obligation bonds

In fiscal years 2006 and 2009, the district issued general obligation bonds of \$96.5 million and \$50 million, respectively. According to the ballot language, the 2006 bonds were issued for the purpose of air conditioning certain existing school buildings; making improvements to school facilities, including constructing new buildings and improving, repairing, and renovating existing school buildings; furnishing and equipping school buildings; and purchasing land for future school sites. The projects funded by this bond issue were started in fiscal year 2007 and were substantially completed in fiscal year 2010.

According to the ballot language, the 2009 bonds were issued for the purpose of air conditioning school buildings; making improvements to Hillcrest High School and other school facilities, including acquiring, improving, repairing, and renovating existing buildings; acquiring title to school facilities by paying off lease obligations; and furnishing and equipping school buildings. The projects funded by this bond issue were started in fiscal year 2010 and some projects are currently in progress.

Lease participation certificates

In fiscal years 2007 and 2009, the school district issued Missouri School Board Association Insured Lease Participation Certificates of approximately \$3.9 million and \$13.9 million, respectively. The 2007 certificates were issued for the purpose of renovating and equipping existing buildings for energy conservation purposes at Kickapoo High School and other sites. The 2009 certificates were issued for the purpose of financing the acquisition, construction, furnishing, and equipping of a new Hickory Hills School and purchasing a new administrative center (the new Kraft building).

3.1 Financing

The district sold these bonds and certificates through a negotiated sale instead of a competitive sale. In addition, the district's bond underwriter also acts as the district's financial advisor.

Bonds

The School Board has been using the same underwriter (bond purchaser), who also acts in a dual capacity as financial advisor, since 1991. Having the same provider serve in the dual capacity of financial advisor and underwriter for a bond issue creates a potential conflict of interest. Additionally, the lack of independent financial advice could result in the



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School Board not always being adequately informed of bond issuance options or being able to adequately evaluate bond proposals. Also, the School Board relied upon the advice of the bond underwriter instead of seeking open bids to assure the most competitive rate of return for taxpayers. The Government Financial Officers Association (GFOA)¹ cautions against using the bond underwriter as a financial advisor because the duties of the underwriter and financial advisor are separate and can be adverse, so using the same provider for both roles causes an inherent conflict of interest. The underwriter does not have a fiduciary responsibility to the district. Underwriter fees for bonds and certificates issued were \$741,500, and \$153,050, respectively.

Lease participation
certificates

Lease participation certificates are a method of financing capital projects whereby a financial institution sells interests in the capital projects, leases the projects to a local government, and repays the certificates with the lease payments. After the certificates have been repaid, the local government typically has the option to purchase at a nominal amount the capital projects it has been leasing. Lease participation certificates are not required to be approved by district voters.

While Missouri law does not require competitive sales of these types of financing instruments or competition in selecting bond underwriters and financial advisors, competitive sales may result in lower interest costs for the district, and competition in selecting bond underwriters and financial advisors is important to ensure services are obtained from the best qualified providers at a fair price.

3.2 Monitoring of bond
projects

The district did not adequately monitor the 2006 bond project costs, and in October 2010, the district reported it had overspent the 2006 bond proceeds by \$1.84 million. As a result, project costs related to the amount overspent had to be paid with monies from the 2009 bond issue. The Superintendent indicated the overspending was caused by some contracts not being encumbered by the district; however, the district had no documentation to support the explanation.

Additionally, we noted the following concerns related to the quarterly bond reports prepared by the bond project department and submitted to the School Board for its review:

¹ "Best Practice Selecting Underwriters for Negotiated Bond Sales," *Government Financial Officers Association*, October 17, 2008, <http://www.gfoa.org/index.php?option=com_content&task=view&id=1585>, accessed September 13, 2011.



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- Quarterly bond reports were not prepared for the 2006 bond issue from October 2009 until October 2010, when the overspending was identified.
- Quarterly bond reports were not always accurate and complete. The June 30, 2009, and September 30, 2009, quarterly bond reports did not include activity for additional projects, which were not included in the original 2006 bond project plans, such as the new Hickory Hills School (\$11.4 million). The Director of Finance indicated the additional projects were not included on these bond reports because they were not part of the original plans; however, these projects were substantially completed in fiscal year 2009, and included on the final bond report prepared for the quarter ending September 30, 2010, which identified the overspending.

In addition, the quarterly bond reports for the quarters ended September 30, 2010, and June 30, 2009, reported encumbrances of \$597,431 and \$35,620,416, respectively; however, the district was unable to provide documentation to show which contract costs were included in these encumbrance amounts.

Good business practice requires adequate monitoring of project costs. Without accurate and complete bond project reports, the district cannot adequately monitor project costs. Accurate bond project reports are essential for effective financial planning.

3.3 Change orders

There were numerous change orders on various construction and renovation projects. Additionally, the services provided and items purchased through the change orders were not bid when appropriate. Further, the district did not always review and approve change orders in a timely manner.

- During the Cherokee Middle School renovation, 70 change orders totaling \$944,514 were processed and not bid, representing over 8 percent of the original contract amount. Some of the change orders included:



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Description of Change Orders	Cost
New lighting or upgrade of light fixtures (5 change orders)	\$ 92,638
Relocate and add electrical and data hookups to the computer room	77,154
New lockers, locker tags, and relocate lockers (3 change orders)	53,424
Additional security system items (3 change orders)	53,763
Wireless and wired networking capabilities	36,431
Closets and cabinets in classrooms (2 change orders)	28,533
Raise ceiling in weight room	22,103
New carpet and doors to a classroom and repaint and clean up another classroom	13,981
New pizza oven and related hookups	12,046
Clean-up and add volleyball striping to gym floor	11,750
Sod for retention pond and new doors	10,491

In addition, the district planned to keep classes in session while renovations were completed; however, the district failed to include some costs for temporary walls, temporary heating systems, and relocation of electric lines in the bid proposal.

- The district did not always review and approve change orders in a timely manner. For example, 8 of 20 change orders processed on the Hickory Hills School construction project, were not reviewed and approved by the Director of Business Operations in a timely manner. Some of the change orders were not approved by the district for up to 9 months after the outside construction contractor had approved the change order. As a result, the construction work related to the change orders had already been started or completed prior to district approval.

Change Order Number	Amount of Change Order	Date Contractor Approved Change Order	Date District Approved Change Order
10	\$49,316	October 2009	July 2010
12	\$49,777	December 2009	July 2010
13	\$49,690	January 2010	July 2010
14	\$49,958	January 2010	July 2010
17	\$49,920	June 2010	September 2010
18	\$46,907	June 2010	September 2010
19	\$46,774	June 2010	September 2010
20	\$14,269	December 2010	April 2011

While change orders often occur on construction contracts, they are normally used to make adjustments for minor problems which are unknown



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when construction projects are originally bid. Change orders should be kept to a minimum to ensure the maximum amount of construction costs are subjected to competitive bidding and to reduce the amount of administrative time and effort in processing change orders. Change orders should not be used to make significant changes to existing contracts. If the scope of a project changes substantially, consideration should be given to bidding those parts of the project. In addition, proper and timely reviews of change orders are necessary to prevent potentially unnecessary work.

3.4 Prevailing wage

The district has not established procedures to adequately monitor contractors to ensure prevailing wages are paid.

Section 290.250, 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. Without policies and procedures to monitor prevailing wage and detailed supporting documentation, the district cannot ensure compliance with state law.

According to the Lead Project Manager, while some contractors provide payroll information to verify prevailing wages are paid, the district does not review the information provided. We noted instances where payroll information was not received by the district or was not adequately detailed to ensure prevailing wages were paid in accordance with state law.

Additionally, we noted an instance in which prevailing wage was not paid. A subcontractor for the Campbell Elementary heating, ventilation, and air conditioning (HVAC) system installation project did not pay prevailing wage rates for asbestos workers or plumbers. According to payroll documentation reviewed, asbestos workers were compensated \$16 per hour while the annual wage order during the same period required a pay rate of at least \$23.41 per hour. Also, plumbers were compensated at \$20.47 per hour while the annual wage order during the same period required a pay rate of at least \$25.59 per hour.

3.5 Long-range planning for projects and facilities

Written comprehensive long-range plans for new construction, renovation, and space management have not been developed. The district has extensive holdings in real estate and buildings. District records for the year ended June 30, 2011, valued district real estate and buildings at over \$216 million. During the past 2 years, the district has disbursed over \$27.8 million for renovations, construction, and property leases and purchases. The district failed to formally document its decision making and planning process related to various facilities including:

- The district purchased land for \$774,180 and constructed a new Hickory Hills Middle School, costing approximately \$20 million. The school was opened for classes in January 2010. The district did not document



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its review or consideration of other real estate listed for sale as possible sites for relocation of this school.

- In October 2009, the district purchased a building to serve as a new administrative center. The building was purchased for approximately \$2.2 million and an additional \$2.18 million was spent to renovate the building in fiscal years 2011 and 2010. The district also spent approximately \$380,000 to demolish the old administrative center building. At the time of this purchase, other district owned buildings were vacant or were planned to become vacant and were being held for sale. The district did not formally document its reasons why the former administrative center or other district owned buildings were not suitable. In addition, district officials indicate space is already limited at the new administrative center. The purchase and renovation of this building were funded by a lease purchase certificate.
- The district formed a committee to locate a building to house the Early Childhood Special Education (ECSE) program, which had previously been located at various schools. The committee recommended the district enter into a 5 year lease agreement with 4 optional 5 year renewals for a building which would be renovated by the owner to meet district specifications. The district entered into this lease in 2010, and if the district renews this lease for 25 years, as provided for by the agreement, the district will spend more than \$19 million to lease this property. The district did not perform or document any long-range plans to ensure the building would be adequate to meet the anticipated growth of the program or perform a cost benefit analysis of leasing versus purchasing or constructing its own building to house the ECSE program. The cost of this lease is currently reimbursed through grant funds.

Documented long-term planning is essential to ensure district resources are used efficiently. Failure to adequately plan for future needs could result in wasted resources. New construction, renovation, and leases should be conceived in terms of the overall district plan. After a long-range plan is developed, it should be reviewed annually and modified as necessary to meet the changing needs of the district.

Recommendations

The School Board:

- 3.1 Pursue open competition in any future bond or certificate sales, and discontinue using an underwriter who also acts in a dual capacity as financial advisor.



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- 3.2 Ensure adequate monitoring is performed and documented on future projects. The School Board should also require quarterly bond reports be prepared and reviewed timely.
- 3.3 Monitor change orders, give consideration to bidding when substantial project changes are needed, and ensure change orders are approved timely.
- 3.4 Establish policies and procedures to ensure prevailing wage rates are paid on all required projects including adequate supporting documentation to substantiate rates paid.
- 3.5 Develop comprehensive, written long-range plans which address all known construction, renovation and space needs, regardless of funding sources.

Auditee's Response

The School Board provided the following written responses:

- 3.1 *We currently consult with an underwriter on bond matters, but all issues are thoroughly vetted by our Finance Department. Though the GFOA states that "issuers must keep in mind that the roles of the underwriter and the financial advisor are separate, adversarial roles and cannot be provided by the same party," it further states that an outside financial advisor should be hired "unless the issuer has sufficient in-house expertise and access to market information." The district does have that level of expertise in its Finance Department staff, which includes a Cash and Investments Manager and a Director of Finance, with 10 years of school district audit experience.*

In the matter of negotiated sales versus competitive sales, the GFOA states "research into the subject has not led to universally accepted findings as to which method of sale is preferable" and further states "if the government agency has in-house expertise, defined as dedicated debt management staff whose responsibilities include daily management of a debt portfolio, this analysis and selection could be made by the government's staff."

- 3.2 *After we identified and publicly reported this concern in October 2010, we made significant changes in the monitoring of bond projects including:*
 - *Moving the bond accounting functions from the Capital Construction department to the Finance department;*
 - *Conducting weekly meetings with the bond accountant, project managers, and Director of Business Operations; and,*
 - *Preparing and reviewing the bond report monthly rather than quarterly.*



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- 3.3 *We plan to take the following actions:*
- *We will regularly monitor change orders to ensure timely approval.*
 - *We will review current practices and procedures and consider whether bidding change orders would increase the efficient and effective use of district resources.*

The Cherokee Middle School was a uniquely complex project because it combined new construction and remodel work. If many of the change orders had been bid, coordination with multiple contractors for the projects and times of completion would have compromised the timely completion of the overall project.

- 3.4 *We will review existing policies and procedures and consider whether adding staff to review the certified payrolls to ensure compliance with prevailing wages would increase the efficient and effective use of district resources. Contractors engaged by the school district are required to pay prevailing wage, and the district requires a certified payroll from the contractors to document that prevailing wages are paid. Taking on the task of verifying that prevailing wage is paid by all contractors it works with could require hiring additional personnel thus increasing annual operating expenses.*

- 3.5 *We have formed a long-range facilities planning team to guide the process of creating a long-range facilities plan for the district. We plan to review current practices and procedures and identify ways to improve documentation of future real estate transactions.*

4. Real Estate Transactions

The district entered into multiple agreements to sell district property to a buyer who has failed to make the required payments and meet other contractual obligations. Despite the buyer's failure to make required payments and meet other contractual obligations, the district has entered into a revised real estate agreement and 2 amendments to that agreement to extend the buyer's obligations to later dates. The latest real estate agreement provides for the district to finance a portion of the purchase price. In addition, the district failed to have the property reappraised to both ensure and document it received a reasonable price. For other real estate transactions the district did not document its reasons for paying more for land than the appraised value and did not retain some of the pertinent real estate documents, and did not obtain an updated appraisal when purchasing a building.

4.1 Sale of old Hickory Hills School property

In April 2006, the district obtained an appraisal of the old Hickory Hills Middle School property, which valued the property at \$3.2 million, with a projected appraised value of \$5.35 million as of April 13, 2010 (the projected date the sale could be completed). In June 2006, the School Board



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authorized a real estate broker to advertise the property for sale. In October 2006, the district negotiated the sale of the property with a buyer through the real estate broker; however, in March 2009, the proposed sale failed.

In September 2009, the district's attorney was contacted by the attorney for a potential buyer, Larino Properties, LLC, and in February 2010, the School Board approved and authorized the sale to this buyer without re-advertising the property or soliciting bids from other potential buyers. The district has entered into multiple agreements and extensions with this buyer since early 2010.

Agreements and extensions

The district entered into a real estate purchase agreement with this buyer on March 1, 2010, for a purchase price of \$4,450,000. The agreement required earnest monies of only \$10,000 be placed into a district escrow account, with the balance of the purchase price to be paid at closing. The anticipated closing date was on or before November 15, 2010. The agreement indicated the buyer's intent was to discuss possible financing programs and incentives with various government agencies and organizations. The sale was not finalized and there was no closing or payment of earnest monies under the original real estate purchase agreement.

However, an amended and restated real estate purchase agreement with this same buyer was executed on December 9, 2010, for \$4,450,000 and was closed on January 31, 2011. This agreement provided for the buyer to take possession of the property at the date of closing and required the payment of \$10,000 in earnest monies. It established a temporary promissory note for \$4,440,000, to be paid off on or before June 15, 2011, with a cash payment of \$2,490,000 (\$2,500,000 less \$10,000 earnest monies) and the remaining balance of \$1,950,000 to be financed under a promissory note with the district. The agreement also requires the buyer to complete demolition of the school buildings and grading work to lower the grade of the property even if the agreement is rescinded. In addition, if demolition of the school buildings was not completed by June 15, 2011, the buyer agreed to complete asbestos remediation, provide a letter of credit (guarantee of payment of the unfulfilled obligation) to ensure the completion of the demolition, and relocate the street providing access to the property by June 15, 2011. The promissory note with the district provides for the buyer to make a \$1 million principal payment by no later than December 31, 2015, pay the remaining principal balance of \$950,000 plus any accrued interest on or before December 31, 2017, and make quarterly interest payments based on a simple interest rate of 3 percent. According to agreement terms, the promissory note is subordinate (second in line) to any subsequent loan the buyer may obtain from a bank or financial institution to develop the property. The buyer placed earnest monies of \$10,000 into a district escrow account on February 4, 2011, but failed to make the \$2,490,000 cash payment by June 15, 2011, and also did not meet any of the other requirements of the amended agreement.



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The buyer requested an extension from the district, and the first amendment agreement, effective June 15, 2011, required the buyer to pay a \$50,000 non-refundable cash payment, and extended the amended and restated real estate purchase agreement timelines and deadlines making the \$2,490,000 cash payment due by October 14, 2011. The amendment agreement provides for the \$50,000 to be fully applied to the required cash payment (if and when it is paid); thus, reducing the balance due to \$2,440,000. School Board approval of this amendment occurred at a June 28, 2011, closed session; 13 days after the June 15, 2011, effective date of the amendment agreement. The buyer paid the \$50,000 non-refundable deposit to the district on July 7, 2011, but again failed to make the required cash payment by October 14, 2011, and requested another extension from the district.

The second amendment agreement, effective October 14, 2011, requires the buyer to make monthly non-refundable payments of \$12,500 through the extension period and provides for these payments to be fully applied to the required \$2,440,000 cash payment now due on April 13, 2012; thus, reducing the balance due for payments made during the interim. District records indicate the buyer did make the \$12,500 payments for October, November, and December 2011. This second amendment agreement also required additional consideration from the buyer - to commence demolition of the school buildings on the property on or before December 1, 2011. On November 30, 2011, the buyer sent an email to the district providing a project update and indicating the contractor was "currently in the process of preparing to file" for the internal wrecking permit. The district sent the buyer an email later in the day with suggested wording changes, including a change to "have filed" for the interior wrecking permit. The suggested wording change was approved by the buyer. As of December 1, 2011, the city has not issued any permit allowing for demolition of the school buildings.

Status

Had the terms of the original real estate agreement been met, the school district would no longer own the old Hickory Hills school property and would have received the \$4,450,000 purchase price. Had the terms of the amended and restated real estate agreement been met without any extensions, the school district would have received the \$2,490,000 cash payment by June 15, 2011, and would be receiving quarterly interest payments of \$14,625 on the \$1,950,000 promissory note. In addition, the asbestos abatement, grading work, and a letter of credit terms of the agreement would have been met.

Instead the district has an amended and restated real estate agreement with two extensions. Almost 2 years after entering into the original real estate agreement with this buyer and 13 months after the first scheduled closing date, the district has only received \$97,500 of the total \$4,450,000 purchase price and no significant work has been completed related to demolition, asbestos removal, and grading of the property, or relocation of the street providing access to the property. The district has continued to incur legal



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and personnel costs related to the multiple agreements and extensions, and has not received significant monies which could be utilized by the district for other projects. The buyer has been allowed to make payments, all of which will be applied to the purchase price if and when paid; effectively giving the buyer an interest free loan.

It is important to ensure a buyer's financing is in place prior to finalizing real estate transactions. The agreement and extensions the district entered into with the buyer appear to primarily benefit the buyer in that the agreement and extensions essentially provide the buyer with an interest free loan to extend the contract and makes the promissory note subordinate (second in line) to any subsequent loan the buyer may obtain from a bank or financial institution to develop the property.

Appraisal

While the district obtained an appraisal in 2006, which projected a value of the property in 2010, the district did not obtain a more current appraisal. The value of appraisal information diminishes over time and should be reconsidered, particularly when there are significant economic and market changes. A current appraisal would have provided a basis for negotiations and additional assurance the district received a reasonable price for the property.

4.2 Real estate purchases

Improvements are needed in the district's handling of real estate purchases.

- The district failed to document its reasons for purchasing land (the site of the new Hickory Hills School) for \$258,060 more than the appraised value and failed to obtain the seller's appraisal and charitable contribution form to support the price paid. In March 2007, the district entered into a real estate agreement to purchase 23.46 acres for \$33,000 per acre or \$774,180. However, in April 2006, the district had an appraisal performed which valued the property at only \$22,000 per acre, and the district did not document its reasons for paying more than the appraised value. This land was purchased to build the new Hickory Hills School.

District officials indicated the seller obtained an appraisal performed in November 2006, which valued the property at \$40,536 per acre; however, the district did not obtain a copy of the seller's appraisal to support the price paid. Also, the real estate agreement required the district to provide the seller with an IRS Form 8283-Noncash Charitable Contribution (for the excess of market value based on the seller's appraisal over the sales price of the property). The district did not obtain a copy of this Noncash Charitable Contribution form, and as a result, the district has no documentation of the value of the noncash charitable contribution. We noted other instances where the district failed to document its reasons for purchasing property for more than the appraised value.



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- The district failed to obtain an updated appraisal prior to the purchase of the new administrative center. The district purchased property in October 2009, for new administrative offices (the new Kraft Administrative Center) at the appraised price of approximately \$2.2 million; however, the appraisal was performed in March 2007, and a more current appraisal was not obtained. As a result, the district cannot be assured it received the lowest and best price for this property.

Considering the large investment of district funds, the School Board should document its reasons for purchasing land for more than the appraised value and obtain updated appraisals. In addition, to ensure real estate transactions are properly represented by all parties involved, all applicable documents should be obtained and retained.

Recommendations

The School Board:

- 4.1 Reevaluate current arrangements and options, ensure compliance with agreements, and consider not entering into such agreements in the future where the buyer does not have financing in place.
- 4.2 Ensure future purchases of real estate are handled appropriately and all supporting documentation related to real estate transaction decisions are obtained and retained. The School Board should also document reasons for disparities between appraised values and sales prices of real estate.

Auditee's Response

The School Board provided the following written responses:

- 4.1 *We plan to evaluate whether obtaining current appraisals for future sales of real estate would increase the efficient and effective use of district resources.*

The old Hickory Hills property has proved difficult to sell due to the fact that it is suitable only for commercial and retail development, but such development will require extensive improvements and relocation of the public roads in the area, as well as other infrastructure improvements.

In April of 2006, the district entered into a real estate contract to sell the property to a buyer with experience in the commercial development of properties of this kind, for a price of \$5,135,000. In the course of subsequent work by the buyer, it was determined that relocation and improvement of the public roads in the vicinity of the property would be required at an approximate cost \$8,000,000. The buyer was ultimately able to reach agreements with the State, City and County to fund these road improvements. However, due to the time delays in reaching these agreements and the intervening



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collapse of the commercial real estate market, the buyer was unable to secure an anchor tenant for the property. In March of 2009, the sale was cancelled.

In September of 2009, the district's attorney was contacted by an attorney for another buyer. In February of 2010, the School Board approved the first agreement with this buyer, which provided for a cash sale price of \$4,450,000. However, the buyer confronted substantial difficulties in proceeding forward with the development of the property, primarily due to the public road and infrastructure improvements that were required and the continued deterioration of the commercial real estate market. The district ultimately entered into an amended and restated real estate contract with the buyer in December of 2010 which provided for a purchase price of \$4,450,000, with \$2,500,000 to be paid in cash before the buyer proceeded with any commercial development of the property, and the remaining amount (\$1,950,000) to be paid over time with the final payment due by December 2017.

*In evaluating whether to proceed forward with this transaction, the district properly considered (1) whether it could actually sell the property and receive significant proceeds in light of the substantial cost of the road and other infrastructure requirements to develop the property; (2) the economic benefits and employment for district residents and businesses resulting from approximately 8 million dollars in public road construction and improvements, and an estimated 15 million dollars in private construction on the property; (3) the permanent positions of employment that will be created in the district by the commercial and retail development of the property; (4) the property tax revenue the district would receive from this development, estimated at more than \$250,000 per year; and (5) that if the buyer does not close on the contract the old school building will be demolished, the asbestos present in the building will be removed, and the property will be graded so that it is in a developable condition, all at no cost to the district and to the substantial benefit to the district. These factors were proper for the School Board to consider in deciding whether to enter into the contract with the buyer, and consideration of these factors has been approved by Missouri Courts. See *Moschenross v. St. Louis County*, 188 S.W.3d 13, 22 (Mo. App. 2006) (cited with approval in *Manzara v. State of Missouri*, 343 W.W.3d 656, 677 (Mo. Banc. 2011) (Wolff concurring)).*

With regard to not obtaining an appraisal of the old Hickory Hills property in 2010, this was done in order to save the district the additional cost of the appraisal and because the real estate market had collapsed after the 2006 appraisal. An appraisal was obtained



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by the buyer's lender dated November 28, 2011, which values the property at \$3,822,000.

4.2 *We have commenced scanning all documents and maintaining them in a central database to ensure supporting documentation of real-estate transactions is archived and readily accessible.*

An updated appraisal for the future Kraft Administrative Center site was not obtained because initial negotiations pertaining to the purchase commenced soon after the original appraisal.

5. Procurement Procedures

District procedures for selecting and contracting for goods and services are not sufficient. Professional services are frequently obtained without benefit of a competitive selection process, and bidding decisions were not well documented.

5.1 Professional services

The district did not solicit requests for proposals for several professional services. Without requesting proposals for professional services, the district has not ensured it has received quality services at a fair price.

Legal services

The district has used the same attorney for at least 25 years without periodically conducting a selection process. The district also does not have a written agreement with its attorney for legal services provided. The district paid \$596,104 for legal services during the 2 years ended June 30, 2011.

HBT Fund consulting services

The district has used the same consulting services for the HBT Fund since 2003, without periodically conducting a selection process. The district also has not renewed the contract with this consultant since 2005, and the consultant is performing duties which are not in compliance with contract terms. The district has paid this consultant \$37,500 annually from the HBT Fund.

The contract requires requests for proposals (RFPs) for services be solicited by the district purchasing office, specifies the consultant's only involvement in the RFP process shall be to assist with the preparation of the RFPs and the evaluation of responses to the RFP submission, and states the consultant will not act in any capacity as a broker or broker of record on behalf of the district. However, the consultant is acting as a broker for the district for the following services: primary provider organization, third-party administrator, dental administration, employee assistance plan, and stop-loss insurance, which is contrary to contract terms. By allowing this consulting firm to act as the broker for these services, the district is relying heavily on this firm to make significant decisions and has less assurance that decisions made are in the best interest of the district.

Transportation consulting services

The district did not solicit proposals prior to contracting for transportation consulting services. In April 2008, the district hired a consultant to perform



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an evaluation of its transportation operations. In June 2008, after the evaluation was completed, the consultant was hired to manage district transportation operations. The district paid \$206,450 for consulting and management services from April 2008 through May 2009.

Conclusion

Soliciting proposals for 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 after taking expertise, experience, and cost into consideration. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions be in writing.

5.2 Engineering and surveying services

While the district has established procedures for evaluation and selection of engineering services, the district did not follow its procedures for evaluating and selecting an engineering firm used for the HVAC project at Jarrett Middle School. The district paid this engineer \$204,752 during the 2 years ended June 30, 2011. In addition, the district did not follow its procedures for evaluating and selecting a geologic engineering firm used for the new Hickory Hills School construction project. The district paid \$47,446 for these services during the 2 years ended June 30, 2011. While the district has an approved list of engineers, these firms were not on the list.

The district also did not document its evaluation and selection of surveying services. The district paid \$21,941 for surveying services during the 2 years ended June 30, 2011.

Sections 8.289 and 8.291, RSMo, provide guidance on obtaining, evaluating, and negotiating such services.

5.3 Contract procurement and vendor donations

Concerns were identified related to contracts awarded by the district, based at least in part, upon donations given/promised by the contracted vendors.

- While the district solicited proposals for custodial management services in 2010, the RFP did not contain provisions or requests for vendor donations. The vendor awarded the contract submitted a bid to the district offering a \$125,000 donation over a 5 year period. The district awarded the contract to this vendor, at least in part, because of the donation, and provisions requiring the donation to be provided were included in the contract by the district. District officials indicated the donation will be used for district equipment purchases and improvements, facility asset improvements, and student scholarships. The district paid this vendor more than \$2 million during the 2 years ended June 30, 2011.
- In June 2011, the district awarded a 5 year contract to a local vendor to exclusively provide beverages to the district, at least in part, because of



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a \$212,500 donation. While the RFP stated the bidder should specifically identify any donations (monetary or nonmonetary) to be given, the RFP did not specify the evaluation criteria or the value applied in the evaluation process for the consideration of a donation.

In order to ensure fair competition among potential bidders and demonstrate it has received the best services at a fair price, the district should ensure RFP provisions and evaluation criteria clearly identify all items bidders need to address in their proposals. It is also important that district evaluation documents and contracts are consistent with the RFP provisions.

5.4 Bid specifications and evaluations

Bid specifications prepared by the district sometimes limit potential bidders, and concerns were noted with the development and evaluation of some RFPs.

- The former Transportation Director, who was hired by the district in May 2009, developed the specifications required for the RFPs for the purchase of digital video systems (cameras) for school buses in July 2009, recommended vendors to receive the RFPs, and served on the RFP evaluation committee and provided input regarding the ultimate vendor selection. The district received eight proposals for bus cameras; however, the district's evaluation of these proposals indicated seven of the eight proposals failed to meet a bid specification requiring the mounting system for the cameras to meet or exceed military grade standards. The only vendor that could meet the bid requirement was the former Transportation Director's previous employer and that vendor was awarded the bid. The district paid this vendor \$312,159 during the 2 years ended June 30, 2011. One of the other bidders formally complained to the district that specifications were written unnecessarily stringent to allow only one vendor to meet the bid specifications. The district had no documentation to show how this formal complaint was resolved. In addition, while district officials indicated the district advertised for bids on its website, the district did not retain any documentation of this process. While the former Transportation Director's insight and knowledge may have been valuable to the RFP process, the district has an obligation to ensure potential conflicts of interest and opportunities for personal gain are avoided and any concerns resolved.
- The district issued an RFP in March 2010, to two school bus vendors for the purchase of new school buses. The bid specifications stipulated the buses could not use additives to meet emission requirements, although this practice is allowed and used by many bus manufacturers. As a result, only one of the vendors contacted could meet the bid specifications and was subsequently awarded the bid. The district paid this vendor \$358,060 for school buses during the 2 years ended June 30, 2011. In addition, the other school bus vendor formally requested the



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district to re-consider the stringent bid specifications because it would allow all manufacturers of buses to supply a fair and equal proposal to the district. Upon our questioning of these strict bid specifications, the district's Transportation Director indicated the district is currently re-evaluating its requirements for buses. In addition, while district officials indicated the district advertised for bids on its website, the district did not retain any documentation of this process.

Open and competitive bidding using reasonable bid specifications helps ensure all interested vendors are given an equal opportunity to participate in district business and the district receives the best goods and/or services for the best price. In addition, employees of the school district serve in a fiduciary capacity. Personal interest in business matters of the district could create the appearance of or actual conflicts of interest.

Recommendations

The School Board:

- 5.1 Solicit proposals for professional services, enter into written agreements for professional services, renew contracts to extend the terms, and ensure compliance with contract terms.
- 5.2 Comply with state law and district policy when procuring engineering and surveying services and document the evaluation and selection process.
- 5.3 Ensure RFP provisions and evaluation criteria clearly identify all items which should be addressed in proposals and that will be considered during the evaluation process.
- 5.4 Ensure bid specifications are not unnecessarily stringent and more closely examine district transactions to identify and avoid conflicts of interest.

Auditee's Response

The School Board provided the following written responses:

- 5.1 *We plan to take the following actions:*
 - *We will formalize a contract for legal services commencing with the 2012-13 school year.*
 - *We will amend the HBT fund consulting services contract to allow for the development and marketing of requests for proposal for contracts related to the health plan.*

There is no requirement to bid professional services. Where a specific expertise or specific knowledge of the school district is required, the district does not bid out professional services. This is the case for legal services.



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The school district has the in-house expertise to consider recommendations made by the consulting firm and to weigh differing views in order to make independent decisions. Given this unique expertise, the district believes that the firm serves in an advisory capacity and not "to make significant decisions" as was stated in the audit report.

When faced with the sudden departure of the Director of Transportation, the district temporarily contracted with the consultant, who had knowledge and expertise regarding the district's transportation operations, to ensure continuity and quality of transportation services until a permanent replacement could be hired.

5.2 *We plan to review state law and district policies to ensure that appropriate procedures are followed when contracting for engineering and surveying services. Due to a clerical error, the firms used should have been on the list of approved engineers but were inadvertently omitted.*

5.3 *We will ensure RFP provisions and evaluation criteria clearly identify all items which should be addressed in proposals and that will be considered during the evaluation process.*

5.4 *We will consider whether bid specifications are unnecessarily stringent when creating future RFPs.*

We were aware of the Transportation Director's prior relationship with a specific vendor and took great care to ensure that the process was properly followed. Specification for the camera-mounting system was included to ensure the long-term durability of the mounting system. The specification that buses could not use additives to meet emission requirements was included so that the school district could avoid having to purchase new inventory and equipment to accommodate the use of the additives as well as having to train employees on the use of the additives. While each of these specifications was discussed by district staff, documentation of the discussions was not maintained.

6. Contracts

Improvement is needed in the district's handling of contracts.

6.1 Service contracts

The district has entered into numerous long-term service contracts that cost the district a substantial amount each year. Various problems were noted with these contracts and/or the selection of the providers. Cost analyses were not always performed when appropriate, contracts were sometimes entered into without soliciting proposals from other service providers or



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clearly documenting why proposals were not sought, and contracts did not always include provisions allowing for auditing or monitoring of vendor records so the district could better monitor costs and performance measures periodically. The following are examples of service contracts in effect during the 2 years ended June 30, 2011, for which the district did not perform adequate cost analyses, bidding, or monitoring of billings and performance.

- The district paid approximately \$8 million for substitute services during the 2 years ended June 30, 2011. Approximately \$1.5 million of this amount was for administrative costs. The district has not solicited bids for these services or updated a cost analysis since 2007, when the district initially entered into this contract. The initial cost analysis indicated the district would spend more than the district had previously spent managing these services in house. The annual cost of these services has increased by more than \$1 million from 2009 to 2011. The district also did not include provisions in this contract to audit vendor records and billings. In addition, the contract provisions allow the arrangement to continue indefinitely until canceled by either party.
- The district paid a vendor over \$11.2 million and \$2 million during the 2 years ended June 30, 2011, to provide food and custodial management services, respectively. This vendor has provided district food management services since 1991 and custodial management services since 2003. Although these services are periodically bid, no cost analyses have been conducted to evaluate if the costs are reasonable and if outsourcing continues to be the most cost beneficial method for providing these services. While food management service costs have fluctuated from year to year, the average annual cost has increased significantly and was more than 40 percent higher for fiscal year 2011 than costs for fiscal year 2005. Similarly, custodial management service costs have fluctuated from year to year, and costs for fiscal 2011 totaled approximately \$1.2 million or 53 percent more than costs for the first full year of the contract (fiscal year 2007). Because the district did not include audit provisions in either contract, there is less ability to monitor the vendors and gain assurance that services provided and amounts paid are reasonable and appropriate.
- The vendor which provides asbestos removal services was paid \$243,318 during the 2 years ended June 30, 2011, and while the district indicated it bid these services in 2008 and entered into a 13-year contract, bid documentation was not retained.
- The district paid a pharmacy benefit provider over \$3.7 million and \$3.3 million in prescription claims during the years ended June 30, 2011 and 2010, respectively. The district entered into a contract with this provider



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containing provisions other than those outlined in the RFP. The RFP provided for a 1 year contract with two optional 1 year renewals; however, after proposals were reviewed in 2006 the district entered into a 3 year contract with two optional 1 year renewals without rebidding this service. In addition, the district did not select the lowest bid and failed to document its reasons for selecting other than the lowest bid.

- The district paid a dental benefit provider over \$1.3 million and \$1.2 million in dental claims and over \$130,000 in administrative fees annually during the years ended June 30, 2011 and 2010, respectively. Proposals for this service have not been sought since 2007, and the district entered into a contract in January 2008, that provides for 1 year contract renewals until either party terminates the agreement.

Given the costs associated with these services, it is essential cost analyses be periodically performed, periodic competitive bidding be considered, and audit provisions be included in contracts. Continued examination of contracts by the district administration will help ensure district funds are spent wisely, and the best method of providing services (outsourcing versus in-house) is periodically evaluated.

6.2 Written contracts and contract compliance

The district did not always enter into formal written contracts defining services provided and benefits received, and did not monitor some contracts for compliance.

- The district entered into an oral agreement with Ozark Technical College to provide vocational technical classes to students. The district paid this college approximately \$1.1 million for providing these classes during the 2 years ended June 30, 2011.
- Based upon an oral agreement, the district provides accounting and payroll services to the Missouri Reading Initiative (MRI) Program in exchange for an 8 percent administrative fee of MRI disbursements. The district received administrative fees totaling approximately \$146,000 during the 2 years ended June 30, 2011.
- The district did not ensure Missouri State University (MSU) complied with the terms of a contract executed in March 2006, for research services. The contract required interim and final reports containing the scope of the work conducted and findings and conclusions of each research project. However, at the time of our request in April 2011, the district did not have any documentation of research project reports prepared by MSU. The district was only provided advisory board meeting notes from MSU. A review of these notes show discussions of potential research programs for the ten participating school districts, but do not document findings and conclusions related to these research programs. Additionally, the contract indicates the district is to make



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payment to the university 10 days following the receipt of the final report. The district paid MSU approximately \$24,000 annually for these research services.

Clear and detailed written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions be in writing. In addition, the district should monitor contracts to ensure compliance with contract terms.

6.3 Subsidization

The district subsidizes various operations of the Springfield Public Schools (SPS) Foundation, Missouri State Teachers Association (MSTA) and the National Education Association (NEA), and has not entered into written agreements with these organizations.

SPS Foundation

The district provided office space, utilities, and telephone services to the SPS Foundation free of charge. The district also provided financial support totaling approximately \$110,000 and contributed services (accounting services) valued at \$12,000 according to the foundation's audited financial statements during each of the years ended June 30, 2011 and 2010.

The SPS Foundation is a not-for-profit corporation established to provide financial support and assistance to the district. The district processes all expenses of the SPS Foundation (except payroll costs) through the district accounting system, and is later reimbursed. The Community Foundation of the Ozarks (CFO), a not-for-profit organization that serves as a financial advisor and investment manager to the SPS Foundation, reimburses the district for these expenses at the end of each month. The district paid expenses totaling \$669,291 and \$746,072 on behalf of the SPS Foundation during the years ended June 30, 2011 and 2010, respectively.

The district has not entered into a written agreement with the SPS Foundation to address office space, services, and financial support provided, or a requirement to reimburse the district for the expenses paid on behalf of the SPS Foundation. Additionally, the district does not reconcile the amount of expenses paid on behalf of the SPS Foundation to the reimbursements received from the CFO, and cannot be certain all applicable expenses have been reimbursed.

MSTA and NEA

The district subsidizes some operating expenses of the MSTTA and the NEA. The district provides financial support of \$12,500 annually to each of these organizations; and provides office space, as well as utilities, to the MSTTA, at an annual cost of approximately \$2,600. The district has not entered into written agreements with the MSTTA and NEA regarding these arrangements. In addition, while the district paid some operating expenses of these organizations through its accounting system and subsequently billed for reimbursement of these amounts in September 2010, the district did not



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ensure amounts billed were collected in a timely manner. The MSTTA did not reimburse the district until April 26, 2011, after we questioned the unpaid September 2010 bill.

The district is currently reconsidering this subsidy and therefore, has not billed either of these organizations for expenses incurred during the year ended June 30, 2011.

Written contracts that clearly indicate the benefit to the district for these subsidizations are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. The district should also ensure all amounts paid on behalf of other entities are fully reimbursed and amounts billed are collected in a timely manner.

6.4 Contract provisions

The district has not utilized some contract provisions to conduct audits of services provided and amounts paid, and did not require audit clauses in other contracts.

While the district contract with its third-party administrator (TPA) of the HBT Fund provides for the district to conduct audits of procedural and system controls, plan provisions, claims, and performance measures, the district has not obtained an audit of the TPA since 2005. The district paid approximately \$23 million and \$21 million in medical, prescription, and dental claims and approximately \$467,000 and \$470,000 in administrative fees to this company during the 2 years ended June 30, 2011 and 2010, respectively. In addition, the 2005 audit identified concerns in several areas, including coordination of benefits with other health insurance, coding errors in physician and hospital claims, and several payment errors. The district was unable to provide documentation indicating these concerns and errors were followed up by the district.

Additionally, the contract with the primary provider organization (PPO) provides for the district to conduct audits of covered services and participating providers; however, an audit of the PPO has not been obtained by the district since entering into this contract at least 5 years ago. Medical claims paid by the TPA to the PPO on behalf of the district totaled approximately \$18 million and \$17 million during the 2 years ended June 30, 2011 and 2010, respectively.

Further, the district has not included audit provisions in other significant contracts, such as its dental plan administrator, before and after school care provider, and vending providers.

Contract provisions allowing audits of vendor records, and periodically conducting or obtaining such audits would provide the district added



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assurance that services provided and amounts paid are reasonable and appropriate.

Recommendations

The School Board:

- 6.1 Perform and update cost analyses, periodically solicit proposals for all services, ensure adequate documentation is maintained to support the evaluation and selection process, and include provisions in contracts to better monitor costs and performance measures. In addition, the district should continue to examine the need for certain service contracts and take appropriate action as necessary.
- 6.2 Enter into written agreements defining services provided and benefits received, and monitor contracts for compliance.
- 6.3 Discontinue the practice of subsidizing operations and activities of the SPS Foundation and teacher organizations or enter into written agreements that clearly indicate the benefit to the district for these subsidizations. The School Board should also implement procedures to reconcile expenses paid to reimbursements and for proper follow-up of unpaid amounts.
- 6.4 Conduct periodic audits of vendors as allowed by contract, and consider including provisions for audits in other significant contracts.

Auditee's Response

The School Board provided the following written response:

- 6.1 *We plan to take the following actions:*
 - *We will perform cost analyses prior to contract renewals.*
 - *We will consider adding audit provisions in vendor contracts.*
 - *The district's bid cycle is typically 3-5 years, depending on the complexity of the service. As these contracts come up for renewal, the district will include an expiration date.*
 - *We will maintain adequate documentation of the evaluation and selection process.*

The \$1.5 million in administrative costs (substitute services) includes charges for workers compensation, payroll taxes, and training, as well as the fees for administering the contract. In addition, while the costs associated with this service have increased from 2009-2011, it should be noted that the majority of this increase can be attributed to the vendor's improved effectiveness at filling substitute requests as compared to the costs incurred when the district managed the program.



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The \$11.2 million referenced in the finding is for all payments to the food service vendor, not just the management fees. This would include purchases of food, supplies, and equipment, and repairs of equipment. Thus, the 40% increase in food service costs over the last six years, referenced in the audit, would include the increase in the cost of food as well as an increase in the number of meals served. The increase in number of meals was 17% over the same time period. The increase in cost of food, per the Bureau of Labor Statistics, was 24% over the same period. For the referenced period, the food service management fees increased from \$863,173 in 2005 to \$1,043,761 in 2011. This fee is volume based and would have increased if only because of the increase in the number of meals served.

The \$2 million referenced in the finding is for all payments to the custodial service vendor, not just the management fees. This would include purchases of supplies and equipment and repairs of equipment. For the referenced period, the custodial management fees increased from \$617,586 in 2007 to \$624,200 in 2011.

- 6.2 *We plan to take the following actions:*
- *We will develop a formal written contract with the college for vocational technical education with the start of the next school year.*
 - *We will enact a new contract with the MRI program should the district elect to continue the relationship beyond the current school year.*

We believe that all requirements within the cooperative agreement with MSU have been fulfilled.

- 6.3 *With the advent of collective bargaining, we notified MSTA and NEA representatives that the school district will discontinue its practice of subsidization effective July 1, 2012. We plan to review the practice of subsidizing the Foundation for Springfield Public Schools and, should the district elect to continue the relationship beyond the current school year, develop a written contract which clearly defines the benefits derived from this relationship. Some of the expenses identified in the audit as paid on behalf of the SPS Foundation are grant awards made by the Foundation to school sites and programs. These expenses were reimbursed by the Foundation to the district. However, the SPS Foundation recently initiated a change in practice and has started paying their expenses directly. This new practice should be completely implemented by the end of January 2012, obviating the need for the district to perform monthly reconciliations of SPS Foundation expenditures and reimbursements.*



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6.4 *We plan to consider the need to hire additional personnel to perform audits of the Third Party Administrator and Preferred Provider Organization and will add the audit provisions to other significant contracts.*

Fully implementing auditor's recommendations concerning vendor audits could require hiring additional personnel thus increasing annual operating expenses.

7. Fuel Use and Charter Bus Services

Controls and procedures over fuel use and charter bus services need improvement.

7.1 Fuel and use records

Controls and procedures over fuel use and purchases need improvement. The district purchased more than \$1.6 million of fuel during the 2 years ended June 30, 2011.

- Fuel use reports generated from the automated fuel system are not reconciled to fuel purchases. The district maintains three fueling stations used to fuel all district school buses and some district owned vehicles and equipment. The district uses an automated fueling system to track fuel use. Each time a vehicle or equipment item is fueled, the system documents the employee fueling, current date and time, and amount of fuel dispensed. The system also requests current odometer or hour meter readings; however, this information is not required and is not always entered by the person fueling. Reports generated from this system are not reconciled to purchases. In addition, due to damage to one of the fueling stations in 2010, the automated fuel system was not used and fuel use was not tracked. The fueling system was repaired in August 2011. Without complete reports and reconciliation procedures, the district has less assurance that fuel use and billings are proper.
- The maintenance department utilizes 77 vehicles. While maintenance department employees prepare daily route sheets, the daily route sheets do not document the number of miles driven each day. In addition, mileage logs are not prepared for 3 of 12 security department vehicles, and prior to August 2010, mileage logs were not retained for any of the security department vehicles. As a result, fuel efficiency and reasonableness of use cannot be effectively monitored for maintenance and security department vehicles.

Procedures for reviewing fuel used and reconciling use to fuel purchased and on hand are necessary to ensure the reasonableness and propriety of fuel use and disbursements. In addition, mileage logs are necessary to document



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the appropriate use of vehicles, and to support fuel charges. Failure to account for fuel use could result in theft and misuse going undetected.

7.2 Charter bus services

The district utilizes ten local charter bus services; however, the district has not established adequate policies and procedures to determine whether a district bus should be used or if charter bus service is needed. The district spent more than \$500,000 during the 2 years ended June 30, 2011, for charter bus services. Charter bus services were used for class field trips, athletic events, and other student activities. The district did not maintain documentation to show whether a district bus was available or if charter bus service was needed for the trips we reviewed. The district should establish policies and procedures and maintain documentation to determine whether charter bus services are actually needed for district events.

Recommendations

The School Board:

- 7.1 Ensure a documented periodic reconciliation of fuel purchased to amounts used is performed, and investigate any significant discrepancies. In addition, the School Board should ensure mileage logs are maintained for all district vehicles.
- 7.2 Establish policies and procedures and maintain documentation regarding the need for charter bus services.

Auditee's Response

The School Board provided the following written responses:

- 7.1 *We plan to take the following actions:*
 - *We will perform a documented periodic reconciliation of fuel purchased to amounts used and investigate any significant discrepancies.*
 - *We will consider the need for mileage logs.*
- 7.2 *We plan to establish policy and procedures regarding use of charter bus services and consider the need for maintaining documentation.*

8. District Compensation and Vehicle Allowances

Concerns relating to employment contracts, additional compensation, and vehicle allowances were noted.

8.1 Employment contracts and stipends

District procedures related to employment contracts and stipends need improvement.

- The district does not have formal written employment contracts with staff reporting directly to the Superintendent. For example, the Chief Financial Officer (CFO) and the Director of Human Resources (HR) do



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not have formal written employment contracts. The CFO is paid a base salary of \$107,266, a stipend of \$12,000, and a vehicle allowance of \$4,800, annually. The HR Director is paid a base salary of \$112,838, a stipend of \$5,000, and a vehicle allowance of \$4,800, annually.

Additionally, it is unclear why the CFO and HR Director receive stipends for additional responsibilities. District personnel indicated these stipends are for supervising departments within the business operations office, and collective bargaining and negotiations, respectively. These responsibilities are included in their job descriptions and therefore, do not appear to represent additional responsibilities.

- The school district has not established adequate policies and procedures regarding stipends, and adequate documentation of the stipend amounts paid to employees for responsibilities performed outside their normal contracted duties is not always retained. The district paid approximately \$2.6 million each year in stipends to 678 and 877 district employees for the 2010-2011 and 2009-2010 school years, respectively.

A letter of appointment is typically executed between the district and the employee for assuming additional responsibilities. The letter of appointment states the employee shall be compensated for the additional responsibilities according to the district salary schedule.

Of 14 employee personnel records reviewed for this issue, 4 did not have adequate documentation to support the stipends paid. For one employee, who was paid a stipend of \$12,212, the personnel file did not contain a letter of appointment and the employment contract did not address any additional responsibilities or compensation. For three other employees, paid stipends totaling \$50,718, personnel files contained no documentation to support amounts paid and these amounts could not be traced to the district salary schedule.

Formal written employment contracts which clearly define all contractual terms are necessary to ensure all parties are aware of their duties, responsibilities, and benefits and to prevent misunderstandings. Further, adequate policies and procedures regarding stipends, and preparation of extra duty contracts which specify stipend amounts and related duties are needed to adequately support such payments and clarify the process.

8.2 Vehicle allowances

The district has not documented the basis of how monthly vehicle allowances paid to various employees were determined. The vehicle allowances are intended to compensate 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 paid nine employees a total of \$43,200 for vehicle allowances during each of the 2 years ended June 30, 2011. The district pays monthly vehicle allowances of \$600 to the Superintendent; \$400 to the Deputy



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Superintendent of School Operations, Associate Superintendent of Education Services, Chief Financial Officer, Director of Human Resources, Executive Director of Elementary Education, Executive Director of Middle School Education, and Director of High School Education; and, \$200 to the Coordinator of Cultural Diversity. Using the district's current mileage reimbursement rate of 51 cents, the monthly allowance paid to these employees represents 1,176, 784, and 392 miles per month, respectively. While all payments made were reported 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.

Recommendations

The School Board:

- 8.1 Enter into formal written employment contracts with employees, when applicable. The School Board should also establish adequate policies and procedures to address stipends. The policy should require extra duty contracts be prepared, which specify the stipend amount and duties to be performed.
- 8.2 Review vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable employees.

Auditee's Response

The School Board provided the following written responses:

- 8.1 *We have taken the following actions:*
 - *We have eliminated additional duty stipends for all employees reporting directly to the Superintendent.*
 - *We have placed the Chief Financial Officer on a contract effective July 1, 2011.*

We plan to take the following actions:

- *We will take steps to ensure that all employment agreements outline complete descriptions of additional responsibilities to be performed.*
- *We will evaluate the need to place the HR director on a contract.*

There are no federal, state or local requirements that school districts must issue contracts to staff who do not have teaching certifications. These non-teaching staff are placed on the Board approved salary schedule. The CFO is the only non-certificated administrator who has a formal written contract for the 2011-12 school year.

Duties for which the Director of HR and Chief Financial Officer received additional responsibility stipends, prior to July 1, 2011,



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were not a part of their respective job descriptions at the time they accepted their new positions and their initial salaries were assigned. Therefore, the additional responsibility stipend was provided as compensation for duties added to their jobs subsequent to their being hired.

The letters of appointment do not state the amount of additional compensation because the Board has not yet approved any salary increases at the time the letters are written.

- 8.2 *We plan to calculate any auto allowance provided to employees in the future based upon data reflecting actual vehicle expenses. Currently the only district employee receiving an auto allowance is the Superintendent and the terms of that allowance are outlined in his employment contract.*

9. Payroll Controls, Procedures, and Records

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

9.1 Personnel records

Personnel records for several employees were not complete, and the district did not ensure documentation was retained to support the proper employment of a foreign national.

- District officials indicated numerous records, including employee Forms I-9, were damaged in a flood in March 2009, and subsequently destroyed by the district. The district did not require these forms to be recompleted by employees. As a result, a completed Form I-9 was not maintained for several employees.

The Department of Homeland Security OMB Form Number 1615-0047 requires each new employee hired after November 6, 1986, to complete a Form I-9. The Form I-9 must be retained by the employer and made available for inspection by U.S. Government officials including the Department of Homeland Security, Department of Labor, and Office of Special Counsel for Immigration-Related Unfair Employment Practices. According to information provided on Form I-9, an individual may not begin employment unless this form is completed. Employers are subject to civil or criminal penalties if they do not comply with the Immigration Reform and Control Act of 1986.

- The district did not have documentation to support the current employment of a foreign national. District records included only employment authorization documentation which expired on



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December 2, 2004. At our request, the district obtained documentation to verify this employee is currently a U.S. citizen. According to the Department of Homeland Security handbook for employers, employers are required to re-verify employment authorization no later than the date on which the employee's employment authorization document expires.

Complete personnel records should be maintained for all employees to provide documentation of personnel actions and to provide readily accessible work histories. The personnel files should contain a Form I-9 for each employee and current work authorization documentation.

9.2 Segregation of duties

Payroll duties are not always adequately segregated. The district has established procedures for an employee in the school security, nutritional services, transportation, building maintenance, custodial, and staff development departments to receive documentation of time worked or leave taken, review the documentation for accuracy, and report information to the payroll department for processing. Other employees report absences to the substitute services vendor, and a benefits representative in the human resources (HR) department reviews the information provided by the substitute services vendor before submission to the applicable departments.

- The payroll clerk for the transportation department does not process her own payroll information; however, she does have the ability to make swipe cards used by employees for department electronic time clocks, adjust and set bus routes, adjust hours worked, adjust rates of pay, and enter leave usage into the district payroll system without any supervisory review or approval thereby increasing the risk of error and improper transactions. The payroll department only receives a report showing the successful transfer of payroll information from the transportation department before issuing payroll checks. All other supporting payroll documentation remains at the transportation department and is not reviewed by the payroll department for accuracy.
- A benefits representative is responsible for manually entering absences (for employees who do not report absences to the substitute services vendor or work for the departments noted above) into the payroll system, making changes in type and amount of leave taken in the payroll system, importing and exporting the report of absences and related invoices received from the substitute services vendor into the district payroll and accounting systems, reviewing all reports received from the substitute services vendor, and correcting information reported by the vendor. In addition, a documented supervisory review of these records is not performed.



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Proper segregation of duties helps ensure all transactions are accounted for properly. If proper segregation of duties is not possible, a timely supervisory review of the work performed is necessary.

9.3 Substitute services

The district has not established adequate procedures to reconcile amounts paid to services provided by the substitute services vendor. The district contracted with a substitute services vendor to provide substitute employees and to track and report absences for all teachers and some administrative and support staff. The substitute services vendor has established a secured website to allow employees to enter their absences into the vendor's accounting system. Based on the employee's assigned job, the system determines if a substitute should be dispatched or if the employee is reporting an absence and needs no substitute.

- Each school or department does not always review and approve reports of substitutes to be billed, which are provided electronically to each school/department by the substitute services vendor. If a school/department fails to accept or reject the weekly report of substitutes, the vendor's system automatically approves the transactions and bills for all substitutes listed. No further approval is required by the district to process the billing once it is received electronically; therefore, the district has no assurance the amount billed and paid is accurate. At our request, the vendor provided a report of all transactions which were automatically approved by the vendor's system between March 29, 2010, and May 2, 2010, and of the 2,913 substitutes reported, 566 or 19 percent were system approved.
- While the district receives a report of absences and a billing for substitutes from the substitute services vendor, no comparison of these reports is completed to ensure amounts billed for substitutes are correct. In addition, a comparison is not completed between the vendor-provided report of absences and employee leave records maintained by the district to ensure leave is properly charged. During our review of billings and absences for a week, we noted several discrepancies. For example, district leave records for one employee indicated 11 days of accrued vacation were used; however, supporting documentation indicated he was only absent 6 days. A comparison of the vendor report to district leave records would have potentially identified the manual change and error. Additionally, we noted absences are not always reported timely. For example, an employee did not report an absence in the substitute services vendor system, which occurred on October 16, 2009, until April 6, 2010, 172 days after the date of the absence.

The district should establish adequate monitoring procedures to ensure amounts paid to the substitute services vendor and leave records are accurate, and any discrepancies should be investigated.



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9.4 Related employees

A list of related employees is not maintained and monitored by the HR department, and the district has not established adequate policies and procedures related to the hiring, supervising, or tracking of related employees. The absence of data on related employees 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.

Recommendations

The School Board:

- 9.1 Ensure personnel records are complete and documentation is retained to support the proper employment of foreign nationals.
- 9.2 Segregate payroll duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 9.3 Establish adequate reconciliation procedures to verify the propriety of substitute services vendor billings and ensure the accuracy of employee leave records.
- 9.4 Establish policies and procedures to identify and monitor related employees.

Auditee's Response

The School Board provided the following written responses:

- 9.1 *We have taken the following actions:*
 - *We have initiated a process to re-obtain Form I-9s for all employees. The project is anticipated to be completed by the end of January 2012.*
 - *We have implemented process changes to ensure that expired employment authorization documents are flagged and updated documentation is obtained.*

- 9.2 *We plan to review processes involving the transportation payroll clerk and benefits representative to determine if segregation of duties can be improved with existing personnel.*

Fully achieving segregation of duties could require hiring additional personnel thus increasing annual operating costs.

- 9.3 *We will take the following actions:*
 - *We will consider whether it is possible with existing staff to establish reconciling procedures of amounts paid to services provided by substitute services vendor, and absences recorded by the substitute services vendor to leave balances maintained by the district.*



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- *We will consider modifying our process to monitor and follow up with sites that consistently allow the automatic approval default of substitute services.*

Fully achieving these actions could require hiring additional personnel thus increasing annual operating costs.

- 9.4 *Though the school district does not allow related employees to be in a direct reporting situation, the district will consider implementing a policy or administrative practice pertaining to the employment of related employees. There is no federal, state or local legal requirement to maintain a list of related employees.*

10. Disbursements

Weaknesses were noted in controls and procedures over disbursements.

10.1 Manual checks

The approval process for manual checks could be improved. The district issued 31 manual checks totaling over \$1.9 million during the 2 years ended June 30, 2011. While a list of disbursements is provided to the School Board each month, the lists did not include 10 of these manual checks totaling over \$213,000. For example, a manual check written for the purchase of furniture and equipment for the Hickory Hills School totaling \$99,844 did not appear on the list provided to the School Board. District policy states manual checks should only be issued in the case of an emergency. The purchase of this furniture and equipment did not constitute an emergency, and other manual checks issued also did not relate to emergencies. Further, district policy requires all checks be signed by the School Board President and School Board Treasurer; however, we noted manual checks are signed by the district Investment Manager and Accounting Manager.

To ensure disbursements are an appropriate use of district funds, the School Board should perform and document an adequate review of manual checks. Complete lists of disbursements, including all manual checks, should be prepared and submitted for the School Board's review. Also, district policy should be followed regarding signature authority.

10.2 Purchase orders

While district purchasing procedures require purchase orders be prepared and approved by the applicable employees prior to purchase for all disbursements over \$1,000, 17 purchase orders totaling \$715,555 of 55 reviewed were prepared as late as 105 days after the date of the invoice.

To ensure the validity and propriety of disbursements, purchase orders of all types should be completed prior to the date of invoice in accordance with district procedures.



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10.3 Late payments

The district failed to pay several construction project invoices in a timely manner. Construction project invoices are first provided to the project architect for approval; then the project manager, and Director of Business Operations for approvals prior to being forwarded to the district accounts payable department for payment. We noted nine such disbursements totaling approximately \$1.3 million were not paid timely, with one invoice being paid 146 days after the due date. We noted numerous late payment notifications sent to the school district from local vendors. Some of these notices indicated the vendor was going to stop delivery of materials until payment was made. Paying invoices late could cause the district to incur additional unnecessary costs and create project delays.

10.4 Duplicate vendors

The district vendor list contained 52 duplicate vendor names, each with a separate vendor number. Greater controls should be established to ensure only authentic vendors are entered on the payment system. Deleting duplicate vendor names would give the district better control over vendor information and result in a more efficient operation.

10.5 Procurement cards

The district should improve controls over procurement cards. Approximately one-third of full-time and part-time faculty and staff had district-issued procurement cards as of June 2011. The procurement card is an official VISA credit card which is designed to provide a more convenient procurement method than the purchase order system. Most procurement cards have individual transaction limits of \$1,000 and a monthly spending limit of \$5,000. During the 2 years ended June 30, 2011, procurement card purchases totaled approximately \$5.9 million. While the district has policies and procedures to review the assignment and use of procurement cards, these polices and review procedures were not always adequate.

Number of cards

The district has not adequately analyzed the need for issuing procurement cards, and at the time of our review 106 of the 1,129 procurement cards issued to full-time and part-time faculty and staff had not been used during the previous year. At least 35 district employees have been issued more than one procurement card.

In addition, declining balance procurement cards were issued to individuals who do not work for the district. These cards are set up with a spending limit and an expiration date which coincides with the event. During the Tournament of Champions and Lady Classic sporting events held in January 2011 and 2010, and December 2010 and 2009, respectively, 13 cards were issued to 9 coaches from outside the district. Amounts paid on these cards totaled \$10,343 and \$9,741 during the years ended June 30, 2011 and 2010, respectively. Supporting documentation was not required to be submitted by the coaches to support charges, and some charges made to local outdoor supply and toy stores appear unnecessary.



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Given the potential liability related to credit cards, the district should review credit card assignments and use to evaluate each employee's continued need for a card and the need for multiple cards issued to users. The district should also reconsider issuing declining balance procurement cards to non district employees.

Policy violations

Some procurement card expenses reviewed appear to violate the district procurement card policy. We reviewed detailed billing statements related to eight payments made to the credit card company.

- Procurement cards were used for purchases of items with vendors under existing contracts. For example, during the 2 years ended June 30, 2011, the district paid nearly \$127,000 to a contracted office supply vendor using district issued procurement cards. The procurement card policy states procurement cards cannot be used to purchase items covered under existing district contracts.
- Procurement cards were used at local office supply stores for purchases of numerous items that may have been available at the district supply center. Some of these purchases appear to have been made based upon employee preference of type and quality of supply. The procurement card policy states procurement cards cannot be used to purchase items which are available through the district supply center.
- The procurement card policy requires users to request transaction limit increases from the purchasing department; however, procedures have not been established by the department to retain documentation of these requests or their approval. As a result, the district had no documentation of approvals when limits were exceeded. For example, a single charge totaling \$23,885 for hotel expenses was made on a card with a single transaction limit of \$1,000 and a monthly transaction limit of \$5,000.

Procurement card policies were established to provide adequate controls and monitoring of transactions processed through procurement cards; however, the assigned cardholder is ultimately responsible to ensure all transactions comply with adopted policies.

Supporting documentation Adequate supporting documentation was not always submitted to support procurement card purchases. In some instances, only a credit card charge slip was submitted rather than a detailed invoice or receipt slip. The district often uses procurement cards to purchase gift cards and other gifts/awards. Although the district requires gift card forms be completed, indicating who received the gift card and the purpose of the gift card; we noted instances where the form was not completed or was not completed properly (did not indicate the recipient or the purpose) for some procurement card purchases. Other gifts/awards (not gift cards) were purchased using procurement cards



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and documentation of the recipient and purpose of the gift/award was also not maintained. According to the procurement card policy, a receipt or some sort of documentation must support each purchase.

In addition to being required by the district policies and procedural manual, detailed invoices, receipt slips, or other supporting documentation improve the district's ability to review these charges and provide better documentation of the items purchased. Without adequate supporting documentation, the district cannot ensure charges are reasonable and in accordance with established policies.

10.6 Memberships and professional licenses

The district needs to improve controls over tracking and monitoring of institutional and individual memberships and professional licenses. Memberships (professional and civic) and professional licenses are not consistently charged to the same object code/classification, and as a result the district was unable to provide us a report of memberships and professional licenses paid.

To effectively monitor membership and professional license benefits provided to employees, the district should implement an effective and accurate tracking system. The district should be able to easily identify not only the amount that has been paid for membership dues and professional licenses, but also the number of memberships and licenses paid for individual employees and institutional memberships.

10.7 Meals and food purchases

The district does not separately account for the amounts paid for meals and food purchases for employee meetings, training sessions, retirement receptions, employee recognition events, or lunches at local restaurants. In addition, food purchases were often made without documenting the purpose or recipients, and the district does not have comprehensive policies regarding district provided food.

To effectively monitor meals and food purchases, the district should implement an effective and accurate tracking system. Adequate documentation of food purchases including a list of attendees and/or general information stating who was served should be provided to substantiate food costs and these costs should be tracked by the district. In addition, the district should develop comprehensive policies regarding food purchases in an effort to control and reduce these expenditures.

10.8 Travel costs

Improvements are needed to district travel policies. Some district employees rented vehicles for travel while others used their personal vehicle and requested a mileage reimbursement. District policy does not require employees to prepare a comparison of costs to determine the most economical mode of transportation or lodging. The district spent over \$1.4 million in travel costs during the 2 years ended June 30, 2011. Without a



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comparison of the expected costs, the district has no assurance the most economical transportation or lodging is being utilized.

Recommendations

The School Board:

- 10.1 Establish adequate review and approval procedures for manual checks, and ensure manual checks are issued in accordance with district policy.
- 10.2 Ensure purchase orders are approved in accordance with district policy.
- 10.3 Ensure all invoices are paid in a timely manner.
- 10.4 Ensure duplicate vendors are eliminated.
- 10.5 Evaluate the need for each procurement card issued. The School Board should also ensure all procurement card policies are followed or consider revising policies as needed. Adequate documentation should be required and maintained for all procurement card transactions.
- 10.6 Establish a tracking system that allows the district to adequately monitor institutional and individual membership and professional license costs.
- 10.7 Develop comprehensive policies regarding district-provided food purchases. These policies should establish more specific guidelines regarding proper and allowable disbursements in this area along with documentation requirements for these expenditures.
- 10.8 Establish more comprehensive travel policies.

Auditee's Response

The School Board provided the following written responses:

- 10.1 *We have modified processes to ensure that all manual checks are included in the list of disbursements provided to the school board.*

We plan to take the following actions:

- *We will change our procedures for signing manual checks to ensure that all checks are signed by the School Board President and the School Board Treasurer. For practical purposes, the signatures will be stamped and the check approval form will be signed by two of the following positions: Chief Financial Officer, Director of Finance, Budget Manager, Accounting Manager or Investments Manager. These five administrators are authorized to ensure availability of two approvers at all*



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times. In addition, requiring two approvals is a further control on the propriety of the manual checks.

- *We will review current policy which states "only unusual emergency needs should require a manual check." Currently the policy leaves open for interpretation what constitutes an "emergency."*

Due to a timing difference related to month-end procedures, the 10 manual checks mentioned were unintentionally omitted from the list of disbursements provided to the Board.

10.2 *We plan to take the following actions:*

- *We will communicate and clarify existing policies and procedures with staff who work with purchase orders.*
- *We will monitor compliance with policies and procedures.*
- *We will respond to any future infractions through appropriate disciplinary action.*

10.3 *We have made significant changes in how we monitor bond project expenditures, including:*

- *Moving the bond accounting functions from the Capital Construction department to the Finance department.*
- *Conducting weekly meetings with the bond accountant, project managers, and Director of Business Operations. Open invoices are reviewed during these meetings to ensure that they progress through the system in a timely manner.*

10.4 *We have required that W-9s be submitted before a new vendor can be set up. The W-9s include the vendor's federal identification number which will be entered into the system and thus prevent the entry of a duplicate vendor. We also plan to eliminate existing duplicate vendors.*

10.5 *We plan to take the following actions:*

- *We will communicate and clarify existing policies and procedures with staff who use procurement cards.*
- *We will monitor compliance with policies and procedures.*
- *We will respond to any future infractions through appropriate disciplinary action.*
- *We will maintain e-mail documentation of requests to exceed card limits and the approvals.*

We annually analyze the need for issuing procurement cards. Of the 106 cards identified as unused during the past year, the vast majority were issued to staff for emergency use only. For example, 59 of the unused cards were issued to bus drivers for emergency use only on out of town trips. Some staff make purchases for multiple



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programs, resulting in the 35 employees with more than one procurement card. To simplify making travel arrangements and prevent coaches from having to make out-of-pocket expenditures related to their travel to the Tournament of Champions, the district issues declining balance procurement cards to coaches of out-of-town teams. These cards are a contracted cost of putting on the tournament and, as such, the district does not monitor the usage.

10.6 *We plan to consider setting up a separate account for professional licenses and memberships.*

10.7 *We plan to take the following actions:*

- We will consider setting up a separate account for meals and food purchases.*
- We will monitor compliance with policies and procedures.*
- We will respond to any future infractions through appropriate disciplinary action.*
- We will evaluate existing policies regarding district-provided food purchases and establish more specific guidelines where necessary.*

10.8 *The \$1.4 million referenced by the audit as travel costs includes \$577,000 for grant related travel (which is reimbursed to the district), travel for students to national events, mileage costs for travel within the district as well as out of the district, meal, hotel and airfare costs. All travel reimbursement requests are reviewed and approved by the supervisor for appropriateness. In addition, the accounts payable department ensures that appropriate receipts are submitted to support reimbursement requests. We plan to consider establishing more comprehensive travel policies.*

11. Accounting Controls and Procedures

District accounting controls and procedures need improvement.

11.1 Signature stamps

Controls over signature stamps are not sufficient.

- District policy requires signature stamps be kept in a secure location such as a locked drawer or a safe when not in use; however, we noted the Athletic Director's signature stamp was regularly kept on the top of his secretary's desk (even when she was absent from work).*
- Many district documents were signed by various district employees using their department supervisor's or the School Board's signature*



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stamps, and the use of the signature stamps on these documents was not subsequently approved by the actual person noted on the signature stamp. For example, signature stamps of the School Board president and secretary were used by various HR department staff on employment contracts and letters of appointment for additional compensation, and there was no evidence these documents were subsequently reviewed by the School Board.

To reduce the risk of misuse, access to signature stamps should be limited and the use of signature stamps on documents should be subsequently approved by the actual person noted on the signature stamp. District policy regarding physical security over signature stamps should be followed.

11.2 Facility rental

Facility rental procedures need improvement. The district rents its facilities to various organizations and individuals for events. The district collected rental fees totaling approximately \$128,000 for the 2 years ended June 30, 2011.

- The district has not reviewed the operating costs of renting its facilities to ensure the rental fees charged are covering the costs and does not consistently charge rental fees. For example, the district charged a not-for-profit organization for the use of its facilities; however, it did not always charge other similar not-for-profit organizations. Further, some fees have been waived at the discretion of personnel at the district facilities department who handle these rentals, and the reasons for the waivers are not documented and approved by the department supervisor.
- Although the School Board approved a rental fee schedule in May 2010, the district facilities department used a more detailed fee schedule it had prepared that included charges for sound and lights operators, scoreboard operators, custodial overtime, food service overtime, and security which the approved schedule did not include. Additionally, we noted instances where fees charged did not agree to either fee schedule. The School Board adopted the facilities department schedule after our inquiry in May 2011.
- The district has not established adequate billing and collection procedures and records. For example, the district failed to collect for a political event held in November 2008, for facility rental charges and damages totaling \$5,760, and as of September 29, 2011, the amount due had not been collected. Additionally, some potential renters were sent invoices when they had not used district facilities. Further, four additional invoices totaling \$1,309 dating as far back as June 2006, have not been paid.

The district should periodically review operating costs of renting its facilities to ensure rental fees charged are covering costs. To ensure all



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renters are treated equitably, rental fees should be charged in accordance with established fee schedules and policies and procedures should be established for fee waivers. Good business practices require adequate collection procedures be established to ensure accounts are collected in a timely manner and bad debts are kept to a minimum.

11.3 Segregation of inventory duties

Cafeteria food and maintenance supply inventory duties are not segregated.

- Cafeteria managers at each school track the amount of food delivered, complete weekly inventory counts, and generate a report showing the amount of food on hand and amount lost to waste or theft. No independent or supervisory reviews of these processes and records are performed.
- The building services secretary at the district general supply center records inventory distributed to various schools, completes annual physical inventories, and writes off unaccounted for items. No independent or supervisory reviews of these processes and records are performed.

To safeguard against possible loss or misuse of inventory, internal controls should provide reasonable assurances all inventory is accounted for properly and is safeguarded. Internal controls would be improved by segregating duties related to receiving, tracking, and writing off inventory items.

11.4 Policies and procedures

Employee handbooks and the administrative practices and procedures manual do not always agree to approved Board policies, and some written policies are not adequate and complete.

- The employee handbook and the administrative practices and procedures manual state all employees who work 20 hours or more per week accrue 1.75 days of sick leave per month. A Board policy which applies to maintenance, custodial, and supply center staff, states those employees accrue at a rate of 1.75 days per month, and another Board policy which applies to teachers and all other full-time employees, states those employees accrue at a rate of 1.67 days per month. Our review indicates all employees accrue leave at a rate of 1.67 days per month regardless of the provided guidance.
- The 2010-2011 administrative practices and procedures manual states purchase orders are required for all purchases totaling \$1,000 or more; however, Board policy states purchase orders are required for all purchases.
- The accounting procedures manual refers to an accounting system and related procedures that have not been used since 2008.



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- District policy does not address how attendance should be recorded when students are disciplined with out-of-school suspension. As a result, attendance records may be inaccurately reported to the DESE, and possibly result in additional federal funding to the district. The applications software manager, who sends information to the DESE and has the ability to make some changes to attendance records, indicated students disciplined with out-of-school suspension can be counted as absent or as a student who has withdrawn and later re-enrolled; however, he did not know the circumstances when each procedure was to be used. According to the DESE, a student who is disciplined with a long-term out-of-school suspension (10 days or greater) can be withdrawn from the attendance records and later re-enrolled; however, any short-term out-of-school suspension (less than 10 days) must be counted as an absence.

To ensure employees are provided with proper guidance and treated equitably, various personnel and procedural guides and Board policies should be reviewed for accuracy and consistency. In addition, to ensure the usefulness of written policies and procedures, the district should periodically review and revise old policies and procedures as necessary. District policies should also be established to ensure attendance is accurately recorded when students are disciplined with out-of school suspension.

Similar conditions
previously reported

Conditions similar to sections 11.1 and 11.2 were reported in internal audit reports issued in 2007 and 2008 by the former internal auditor (See MAR finding number 14).

Recommendations

The School Board:

- 11.1 Limit access to signature stamps. The School Board should also ensure district policy is followed regarding use of signature stamps.
- 11.2 Periodically review operating costs of renting school facilities to ensure rental fees charged are adequate, ensure rental fees are charged in accordance with established fee schedules, and establish policies and procedures for fee waivers and collection of unpaid rental fees.
- 11.3 Segregate inventory duties to the extent possible, or ensure proper supervisory or independent reviews are performed.
- 11.4 Review various personnel and procedural guides and Board policies for consistency and accuracy, and establish policies to ensure attendance is accurately reported.



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Auditee's Response

The School Board provided the following written responses:

11.1 We plan to take the following actions:

- We will communicate with all signators that their signature stamps must be stored in a secure location when not in use per Board policy.*
- We will monitor compliance with policies and procedures.*
- We will respond to any future infractions through appropriate disciplinary action.*
- We will discontinue use of signature stamps for documents not voted on by the Board.*

11.2 We adopted a more detailed facility usage fee schedule in May 2011 that addresses fees for the various organizations that use school facilities, including not-for-profit organizations.

We plan to take the following actions:

- We will implement new online facility usage software that will enable organizations to request use of facilities and will subsequently invoice the organizations the appropriate amount based on the new facility usage fee schedule. The software will also enable organizations to cancel facility usage prior to invoicing.*
- We will track outstanding invoices via new facility usage software.*

11.3 We plan to review the processes involving the cafeteria manager and the general supply center secretary to determine if segregation of duties can be improved with existing personnel.

Fully achieving segregation of duties could require hiring additional personnel thus increasing annual operating costs.

11.4 We have updated the employee handbook and the administrative practices and procedures manual.

We plan to take the following actions:

- We will update Board policy to reflect district practice.*
- We will update the accounting procedures manual.*
- We will review district policy concerning reporting of attendance.*



12. Sunshine Law Issues

The district did not always comply with the Sunshine Law.

12.1 Closed meetings

Thirty-one closed meetings were held by the School Board during the 2 years ended June 30, 2011, but various requirements in Chapter 610, RSMo (the Sunshine Law), regarding closed meetings were not always followed.

- Notices of the date, time, and agenda of some closed meetings were not published or publicly posted as required by state law, and the district did not always hold open meetings prior to closed meetings. As a result, the specific reasons for closing a meeting were not always documented. These problems were noted for closed meetings held on July 8, November 23, and December 2, 2010.
- There were 13 instances where the School Board approved a list of reasons for closing the meeting in the open meeting, but the School Board only discussed some of these topics in the closed meeting. For example, minutes of the January 12, 2010, open meeting indicated a closed meeting would be held to discuss legal; real estate; hiring, firing, disciplining or promoting of employees; scholastic probation, expulsion or graduation of individuals; and, individually identifiable personnel records. However, the closed meeting minutes did not document any discussion of real estate or personnel related matters. To ensure the public is accurately informed, the School Board should cite in its open meeting only those topics it intends to discuss in the closed meeting.

In addition, meeting minutes were not always sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law. Some of these issues included discussing the signing of an agreement between the district and a local television network to provide coverage of the 2010 Tournament of Champions and relocating the Early Childhood Special Education program.

- The results of roll call votes for decisions made in closed meetings were not always documented in meeting minutes as required by the Sunshine Law. Some decisions made by the School Board in closed meetings were documented in meeting minutes as being approved by a "consensus" of the School Board.

To ensure compliance with state law, the School Board should give advance notice of its closed meetings, ensure an open meeting is held to properly enter into closed meetings, cite specific reasons for going into closed meetings only for those topics it plans to discuss, restrict discussion in closed meetings to the specific topics listed in the Sunshine Law, and ensure roll call votes are taken and documented.



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12.2 School Board retreats

District business was sometimes conducted outside of regular open meetings, and minutes for some of these meetings were not prepared. The School Board and district administrators held retreats during July and November 2009, and July 2010. Discussion at these retreats included the district's strategic plan, 5-year budget projections, future bond/levy information, budget approach, and critical need identification. Official meeting minutes were not prepared for these School Board retreats.

The governing bodies of all political subdivisions in Missouri are required by the Sunshine Law, Chapter 610, RSMo, to conduct business in regular open meetings, and the Sunshine Law also requires meeting minutes be taken and retained.

12.3 Sunshine law requests and public records policy

The district public records policy and procedures need improvement.

- While the School Board has appointed the School Board Secretary as the custodian of records and has adopted a public records policy which indicates fees shall be charged and a schedule of fees shall be publicly posted, the district does not ensure or document compliance with its policy.

Because the district does not adequately document how it calculates the fees charged for Sunshine Law requests, it cannot show compliance with state law. The district often only documents a total amount of fees charged and does not document the number of hours spent for research/duplication activities or the number of copies provided. In addition, a schedule of fees is not publicly posted. The Sunshine Law provides the hourly fee for time spent completing duplication activities is not to exceed the average hourly rate of pay for clerical staff of the entity. Also, research time needed to fulfill the request may be charged at the actual cost.

Further, the district does not consistently charge fees for Sunshine Law requests. For example, an August 2009 Sunshine Law request resulted in 10 copies provided to a citizen at a charge of \$123 while a November 2009 Sunshine Law request resulted in over 573 copies being provided to a different citizen at no charge. In written correspondence to the citizen who made the August 2009 Sunshine Law request and who also questioned the fairness of fees charged, the district's attorney indicated the instance of not charging for requested information was an oversight and fees should have been charged because it involved substantial research and retrieval time.

To ensure fair and equitable treatment of citizens, the district should ensure its charges for records requests are in compliance with state law and district policy and calculations of charges are properly documented.



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In addition, a schedule of fees should be publicly posted as provided by district policy.

- The district does not maintain a log of public requests to ensure all requests are handled in compliance with the Sunshine Law. To ensure compliance with state law, the district should document adequate information in a log to determine if requests are completed timely and all requests are adequately completed. Necessary information includes, but is not limited to, the date of request, a brief description of the request, the date the request is completed or reason why the request cannot be completed, and any associated costs.

Recommendations

The School Board:

- 12.1 Ensure advance notice of meetings is given and open meetings are held to properly enter into closed meetings. The School Board should also cite specific reasons for going into closed meetings only for topics it plans to discuss, and ensure only allowable topics are discussed in closed meetings and roll call votes are taken and documented.
- 12.2 Ensure district business is conducted in compliance with the Sunshine Law, and meeting minutes are maintained.
- 12.3 Document compliance with the Sunshine Law regarding fees charged, ensure a schedule of fees is publicly posted, consistently charge fees for Sunshine Law requests, and establish a public request log.

Auditee's Response

The School Board provided the following written responses:

- 12.1 *We plan to review current practices and ensure that the district fully complies with these requirements.*
- 12.2 *We plan to maintain minutes for all Board retreats.*
- 12.3 *We have initiated a log of Sunshine Law requests. Additionally, since September 2011, these Sunshine requests and documents provided (when available in electronic format) have been made publicly available on the district's website. We will review our policy on posting of fees and ensure compliance with the policy. Additionally, we will consider the recommendation to document the calculation of fees charged for Sunshine Law requests and will consistently charge fees for Sunshine Law requests.*

13. School Safety

The district should improve its policies and procedures regarding background checks to ensure the safety of its students.



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Volunteers

Procedures for conducting background checks for volunteers are not sufficient. We noted several instances where background checks were not performed for volunteers. For example, a background check was not performed for a teacher's spouse, who helped chaperone 13 high school students for a multi-day, out-of-state trip in April 2010. The Superintendent issued a memo to district principals in August 2010, requiring a nation-wide background check be performed on all volunteers. The district has also adopted a registration form for volunteers to file with the district office which requires a background check be performed before a volunteer is allowed to tutor students; assist in the classroom, district office, or library; accompany students on a field trip; or assist in other activities. However, our review of various May 2011 Kickapoo High School student trips determined that volunteer registration forms and background checks were not completed/performed for any volunteers involved.

Vendors and contractors

The district does not have policies and procedures to determine when to require background checks for vendors or contractors whose employees may have contact with students. For example, the district utilizes several local charter bus services for district games, student trips, and other events, but does not require these vendors to obtain background checks for drivers. These charter bus services were used for several extended over-night student trips.

To provide more assurance of student safety, the district should ensure procedures for background checks are followed for all volunteers, and consider establishing policies and procedures requiring background checks be obtained for vendor and contractor employees who have contact with district students.

Recommendations

The School Board should ensure compliance with policies and procedures regarding volunteer registration and background checks, and also consider requiring vendors and contractors to provide background checks for their employees who have contact with students.

Auditee's Response

The School Board provided the following written response:

We plan to take the following actions:

- We will communicate and clarify existing policies and procedures with staff who coordinate volunteers.*
- We will monitor compliance with procedures.*
- We will respond to any lack of compliance through appropriate disciplinary action.*
- We will review existing policies concerning background checks of vendors and contractors and make changes as necessary to ensure student and staff safety.*



14. Internal Audit Function

The district does not currently have an internal audit function, many recommendations made by the former internal auditor have not been followed up or resolved, and the former internal auditor did not report directly to the School Board.

Internal audit function

The district has financial activity averaging more than \$250 million annually, and numerous cash collection points, compliance and policy requirements, and control weaknesses; however, the district does not have an internal audit function. The former internal auditor resigned in November 2008, and the district has not filled the position. According to district officials, the position has not been filled due to budget constraints. However, if utilized properly, the internal audit function can assist management in performing its duties more efficiently and effectively, and the savings could potentially exceed the cost. In addition, an 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.

Implementation and follow-up of recommendations

The former internal auditor issued at least 14 reports during 2007 and 2008 with numerous recommendations; however, many of these recommendations were not implemented or properly followed-up by the district. Unimplemented internal audit recommendations were identified in MAR finding numbers 2 and 11. To properly benefit from the internal audit function, recommendations should be properly followed-up to either ensure implementation or management's reasoning for not implementing are logical and documented.

Reporting structure

Previously the internal auditor did not report directly to the Board. The Institute of Internal Auditors' 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." 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 School Board would help ensure independence and provide a means whereby the School Board can be kept abreast of current operations and activities. Such a reporting structure would also permit the School Board to request the internal audit section to perform specific audits.

Recommendation

The School Board consider appointing an internal auditor to conduct audits of district operations and activities. An internal auditor should report directly to the School Board.



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Auditee's Response

The School Board provided the following written response:

We plan to consider the cost and need for an internal auditor and to determine the appropriate reporting structure for this position. Creating an internal auditor position would increase annual operating costs.

The School District of Springfield, R-XII

Organization and Statistical Information

The School District of Springfield, R-XII is located in Greene County, Missouri.

The school district operates 5 senior high schools (grades 9-12), 6 middle schools (grades 6-8), 1 intermediate school (grades 5-6), 3 combination schools (grades K-8), 33 elementary schools (grades K-5), 2 early childhood centers, 1 alternative school, and 1 gifted school. Enrollment was 24,129 for the 2010-2011 school year. The district employed 2,912 full and 959 part-time employees at June 30, 2011.

The School District of Springfield, R-XII 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 3-year terms without compensation. Members of the board at June 30, 2011, were:

Dr. Tom Prater, President
Jean Twitty, Vice-President
Kris Callen, Member
Dr. Denise Fredrick, Member
Andy Hosmer, Member
Bruce Renner, Member
Gerry Lee, Member

Superintendent

The district's Superintendent at June 30, 2011, was Dr. Norman Ridder and his annual compensation was \$215,708 which includes a vehicle allowance of \$7,200, supplement insurance of \$3,314, and a tax sheltered annuity of \$49,000. The superintendent's compensation is established by the school board.

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

According to district personnel, the district was awarded the following American Recovery and Reinvestment Act of 2009 funding during the 2 years ended June 30, 2011:

During the 2 years ended June 30, 2011, the district was awarded a State Fiscal Stabilization Fund-Education State Grant totaling \$7,810,464 from the U.S. Department of Education for salaries and program costs. The district received and expended \$1,687,236 during the year ended June 30, 2011, which resulted in the retention of an estimated 36 jobs, and \$6,123,228 during the year ended June 30, 2010, which resulted in the retention of an estimated 130 jobs.

During the 2 years ended June 30, 2011, the district was awarded a Special Education Grants to State totaling \$5,940,052 from the U.S. Department of



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Education for salaries and program costs. During the year ended June 30, 2011, \$2,941,058 was received and \$2,863,040 was expended by the district related to this grant which resulted in the retention of an estimated 40 jobs. During the year ended June 30, 2010, \$2,534,546 was received and \$3,073,687 was expended by the district related to this grant which resulted in the retention of an estimated 39 jobs.

During the 2 years ended June 30, 2011, the district was awarded a Title I Grants to Local Educational Agencies totaling \$5,541,038 by the U.S. Department of Education for salaries and program costs. During the year ended June 30, 2011, \$2,941,972 was received and \$3,549,561 was expended by the district related to this grant, which resulted in the retention of an estimated 80 jobs. During the year ended June 30, 2010, \$988,600 was received \$1,730,256 was expended by the district related to this grant which resulted in the retention of an estimated 39 jobs.

A \$2,962,645 Education Jobs Fund Grant was awarded by the U.S. Department of Education for teachers salaries and benefits. The district received and expended this amount during the year ended June 30, 2011, which resulted in the retention of an estimated 63 jobs.

A \$1,049,133 Early Retiree Reinsurance Program was awarded by the U.S. Department of Health and Human Services to help offset rising medical costs and to prevent higher premiums. The district received and expended this amount through the HBT Fund during the year ended June 30, 2011.

A \$1,031,548 State Fiscal Stabilization Fund - Government Services Grant was awarded by the U.S. Department of Education during the year ended June 30, 2011, for salaries and program costs. The district received and expended this amount during the year ended June 30, 2011, which resulted in the retention of an estimated 22 jobs.

A \$236,110 State Fiscal Stabilization Fund - Governmental Services Grant was awarded by the U.S. Department of Education during the year ended June 30, 2010, for transportation department salaries. The district received and expended this amount in the year ended June 30, 2010, which resulted in the retention of an estimated 10 jobs.

During the 2 years ended June 30, 2011, a Special Education-Preschool Grant totaling \$179,207 was awarded by the U.S. Department of Education to provide special education and related services to children with disabilities ages three through five. During the year ended June 30, 2011, \$134,687 was received and \$163,875 was expended by the district related to this grant. During the year ended June 30, 2010, \$5,375 was received and expended by the district related to this grant.



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During the 2 years ended June 30, 2011, an Education Technology State Grant totaling \$163,477 was awarded by the U.S. Department of Education for salaries and program costs. During the year ended June 30, 2011, \$15,716 was received and \$56,251 was expended by the district related to this grant. During the year ended June 30, 2010, \$91,478 was received and \$107,194 was expended by the district related to this grant. This grant resulted in the retention of an estimated one job each year.

During the 2 years ended June 30, 2011, a Title I, Part D, Grants to Local Educational Agencies totaling \$101,928 was awarded by the U.S. Department of Education to provide services comparable to those provided to children in participating school attendance areas and schools to serve neglected and delinquent children in community day school programs. During the year ended June 30, 2011, \$31,915 was received and \$27,322 was expended by the district related to this grant. During the year ended June 30, 2010, \$4,580 was received and \$21,130 was expended by the district related to this grant.

A \$11,798 Education for Homeless Children and Youth Grant was awarded by the U.S. Department of Education for salaries and program costs and resulted in the retention of an estimated half-time job. During the year ended June 30, 2011, \$11,798 was received and expended by the district related to this grant.