



**Nicole R. Galloway, CPA**  
Missouri State Auditor

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# Hannibal School District #60



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**November 2015**  
**Report No. 2015-114**

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<http://auditor.mo.gov>



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Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Hannibal School District #60

Financial Condition	The financial condition of the district's operating funds has declined and is approaching the "financially stressed" classification. A school district is classified as "financially stressed" if the year-end balance in combined operating funds is less than 3 percent of expenditures.
Procurement Procedures	The district used the same firm to serve as both financial advisor and bond underwriter on general obligation bond issuances creating an inherent conflict of interest because an underwriter's incentive is to have bonds carry a higher interest rate to make them more attractive to investors, while the issuer's incentive is to keep the interest rate low to minimize borrowing costs. Additionally, the district sold the bonds using a negotiated sale rather than a competitive sale process, even though a competitive sale could result in lower interest costs for the district. Board policy on competitive purchasing is vague and does not reflect some requirements of law, which requires bidding for supply purchases exceeding \$5,000. Competitive bids were not obtained for some purchases that exceeded this amount.
Accounting Controls Over Cash Receipts	Improvements are needed in the handling of student activity and event admission receipts. The district has not adequately segregated the duties of receiving, recording, and depositing money for event admissions and student activities. For activities, receipt slips are not consistently issued, and staff does not transmit or deposit receipts timely or intact. In some instances, receipt slips were not pre-numbered, the method of payment was not noted on receipt slips, and the composition of receipts was not reconciled to deposits. Established procedures were not always followed for documenting transmittals from faculty and for recording receipts from students. Some collections were deposited 2 weeks or more after receipt, and cash and checks retained on hand were excessive. Change and petty cash funds are not maintained at constant amounts and have been used for items inconsistent with their intended use.
Personnel and Payroll Policies and Procedures	The district does not have adequate controls to prevent and detect employee payroll errors. Additionally, the district provides an additional retirement benefit to employees in excess of normal public retirement benefits. The district believes the incentive offers cost savings to the district by encouraging early retirement of personnel in higher salaried brackets, but has not performed any analysis regarding whether the program is effective. The district has also not kept Board members informed of the total liability to the district.
Electronic Data Security	Controls over district computer systems are not sufficient leaving the district's electronic data unprotected and susceptible to damage or theft. The district has not established adequate password controls to reduce the risk of unauthorized access. Security controls are not in place in any of the district offices to shut down a computer after a certain period of inactivity or lock it after a specified number of incorrect logon attempts.

School Bus Replacement Policy	The district has not adopted a bus replacement policy to plan for the replacement of the high number of old and high mileage buses in its fleet.
Capital Assets	The district's capital asset records are not complete and are not updated timely when purchases and dispositions occur and physical inventory procedures are not adequate. The district has not tagged or otherwise identified all property items belonging to the district.

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

\*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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## **NICOLE R. GALLOWAY, CPA**

### **Missouri State Auditor**

To the Board of Education  
Hannibal School District #60

The State Auditor conducted an audit of the Hannibal School District #60 under authority granted in Section 29.205, RSMo. We have audited certain operations of the district in fulfillment of our duties. The district engaged Wade Stables P.C., Certified Public Accountants (CPAs), to audit the district's financial statements for the year ended June 30, 2015. To minimize duplication of effort, we reviewed the CPA firm's audit report for the year ended June 30, 2014, since the report for the year ended June 30, 2015, had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2015. The objectives of our audit were to:

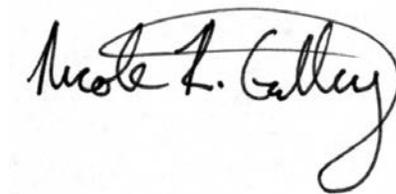
1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

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 tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

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

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with a legal provision, 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 Hannibal School District #60.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	John Luetkemeyer, CPA
Director of Audits:	Regina Pruitt, CPA
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# Hannibal School District #60

## Management Advisory Report

### State Auditor's Findings

#### 1. Financial Condition

The financial condition of the district's operating funds has declined in recent years as the total of operating expenditures and transfers from operating funds to other funds has exceeded total operating revenues. Consequently, the cash balance of operating funds at June 30, 2015, is relatively low and below the district's goal. The following table lists actual school year 2013 through 2015 financial information for the unrestricted operating funds (General Fund and Special Revenue Fund):

	School Year		
	2014-2015	2013-2014	2012-2013
Beginning Balance	\$ 2,725,223	3,517,747	4,069,427
Revenues	32,279,582	31,897,094	31,673,262
Less: Expenditures	32,909,322	32,342,943	31,053,942
Less: Net Transfers	869,093	346,675	1,171,000
Ending Balance	\$ 1,226,390	2,725,223	3,517,747
Ending Balance as			
Percentage of Expenditures	3.73%	8.43%	11.32%

Source: District's Annual Secretary of the Board Report (ASBR) excluding amounts restricted for memorials and scholarships.

While the district's fiscal year 2015 budget for operating funds projected total expenditures to equal total revenues, actual revenues were about \$1.2 million lower than budgeted largely due to approximately \$800,000 in unforeseen protested property taxes, and actual expenditures were about \$400,000 more than budgeted, resulting in a significant drop in the operating cash balance. The School Board monitors budget to actual information on a monthly basis, but was unable to reduce expenditures sufficiently to match revenue shortfalls.

As a result of the decline in fund balance, the district is approaching the DESE "financially stressed" classification. Section 161.520, RSMo, considers a district to be "financially stressed" if the year-end balance in combined operating funds is less than 3 percent of expenditures or negative. According to the district's business manager, the district has an informal operating cash goal for operating cash balances of 12 to 15 percent of total annual expenditures. As noted in the table, the cash balance at the end of fiscal year 2015 was less than 4 percent of fiscal year 2015 expenditures and well below the district's goal. The district's preliminary budget for fiscal year 2016 projects revenues to again approximate expenditures for fiscal year 2016. For the district to improve its financial condition and meet its goals, increases in revenues or reductions in spending along with closer monitoring will be needed. Addressing the issues presented in MAR finding number 2, MAR finding number 4, and MAR finding number 6 could help the financial condition of the district.



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Management Advisory Report - State Auditor's Findings

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## Recommendation

The School Board closely monitor and take appropriate action to improve the overall financial condition of the district's operating funds.

## Auditee's Response

*The Board of Education is implementing a 5-year strategic plan to decrease expenditures and increase revenues for the school district finances. The school district has not been able to increase the operating levy above the state minimum \$2.75 due to the mandate of rolling back Proposition C monies. The Board of Education is implementing a plan to go to the Hannibal community in April 2016 to ask for their permission to waive the Proposition C rollback, which would allow the school district to increase the operating levy to generate the revenues needed to operate the school district and to avoid becoming a "financially stressed" school district.*

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## 2. Procurement Procedures

District bond financing and procurement procedures need improvement.

### 2.1 Bond financing

The district used the same firm to serve as both financial advisor and bond underwriter on general obligation (GO) bond issuances; sold GO bonds using a negotiated sale rather than a competitive sale process; and did not competitively procure the underwriter/advisor. The district sold GO bonds in 2014 and 2015 totaling about \$17 million to refinance the outstanding portion of higher interest bond issued in 2005 and 2006 for construction and remodeling of schools. The district's bond underwriter, who also acted as financial advisor, received underwriter fees for the 2 bond issues totaling approximately \$136,000.

Using the same provider to act in the dual capacity of underwriter and financial advisor for a GO bond issue creates an inherent conflict of interest. An underwriter's incentive is to have bonds carry a higher interest rate to make them more attractive to investors, while the issuer's incentive is to keep the interest rate low to minimize borrowing costs. As a result, the underwriter cannot objectively represent the interests of both parties. Since the underwriter does not have a fiduciary responsibility to the district, the lack of independent financial advice could result in the district not being adequately informed of bond issuance options or being unable to adequately evaluate bond proposals. Additionally, the State Auditor's office completed a statewide review of GO bond sales practices<sup>1</sup> that determined negotiated bond sales historically result in higher interest costs than a competitively sold bond issue.

While Missouri law does not require competitive sales of these types of financing instruments or competition in selecting bond underwriters and

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<sup>1</sup> *General Obligation Bond Sales Practices*, November 2013, Report No. 2013-116



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financial advisors, competitive sales would likely result in lower interest costs for the district. Furthermore, competition in selecting bond underwriters and financial advisors is important to ensure services are obtained from the best qualified providers at a fair price.

The Municipal Securities Rulemaking Board (MSRB) is the regulatory agency that oversees firms involved in underwriting municipal bonds and providing financial advice, and has issued various rules that address the activities and roles of financial advisors and underwriters. MSRB Rule G-23 clarifies the financial advisor has a fiduciary responsibility to the governmental entity (issuer) and cannot act as both financial advisor and underwriter on the same bond issue. Also, MSRB Rule G-17 requires underwriters to disclose that unlike a municipal advisor, the underwriter has no financial duty to the issuer, and is not required to act in the best interests of the issuer. This rule also requires the underwriter to disclose potential or actual conflicts of interest.

## 2.2 Competitive purchasing

Board policy on competitive purchasing is vague and does not reflect some requirements of law, and the district did not solicit bids for several purchases.

Board policy requires competitive bidding for the construction of facilities that are projected to exceed \$15,000, and for insurance contracts, bank depository services, and other products or services as required by law. The policy also indicates other purchases or contractual services may be advertised and submitted for bid as directed by the Board or superintendent. The policy does not provide a bidding threshold for purchases other than construction and does not address time periods involved for purchases from one vendor or sole source procurement. Additionally, while Section 177.171 RSMo, requires bidding for purchases of supplies exceeding \$5,000, this requirement is not specifically addressed in Board policy.

During our review of disbursements made during the 2014-2015 school year, we noted competitive bids were not obtained for purchases of fuel (\$93,296) and computers (\$7,043). Most of these individual disbursements exceeded \$5,000 and some of the fuel disbursements exceeded \$15,000. Board minutes did not document the reasons for the sole source procurement of these purchases; however, the district's business manager indicated the fuel vendor was the only local vendor who could accommodate the district's needs for price, availability, and delivery, and the computer vendor offered unit prices lower than the manufacturer's base price and other vendors were out of stock. Additionally, bids were not solicited for professional services utilized during the year for Internet streaming educational services (\$36,219) and wireless Internet service (\$22,119). While not documented, the district's business manager indicated these vendors have provided the services for many years, and the wireless Internet services were procured from the same vendor who provided the



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related equipment. However, since these items and services are readily available from multiple vendors the district should benefit from a more competitive procurement process.

Competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. In addition, bidding helps ensure all parties are given an equal opportunity to participate in the district's business. Board policy should be amended to ensure all large purchases of goods and services are competitively bid, and the policy should address documentation requirements for sole source procurements.

## Recommendations

The School Board:

- 2.1 Pursue open competition in any future bond sales, discontinue using an underwriter who also acts in a dual capacity as financial advisor, and procure underwriter services and financial advisor services through competitive proposal.
- 2.2 Amend Board policies to be consistent with state law, and ensure all significant purchases of goods and services are subject to a competitive procurement process. If it is necessary to purchase goods or services from a sole source vendor, the reasons should be documented in the Board minutes.

## Auditee's Response

- 2.1 *Districts have been permitted in the past to utilize the same financial advisor to act as the underwriter and negotiate the sale of the bonds. In the future, the district will publicly bid the issuance and have a competitive sale. The district agrees that competition could result in savings and will not contract with one firm to provide financial advisory and underwriting service for the same bond issue.*
- 2.2 *The Board of Education will review and revise as necessary the procurement policy for the District to comply with Section 177.171, RSMo. The District had been utilizing \$15,000 as its threshold for publicly bidding projects, services and other supplies for most purchases.*

*The District agrees that competition could result in savings and has already implemented a bidding procedure for bulk fuel. In addition, the District will establish a bid portal on its website by November 1, 2015, where competitive bidding will occur. Finally, in rare cases that sole sourcing is required; the Board of Education will approve and document these purchases in the Board minutes.*



### 3. Accounting Controls Over Cash Receipts

Significant improvements are needed in the handling of student activity and event admissions receipts. These types of receipts are at greater risk because a large portion is received in cash, and there is a variety of handling and record-keeping methods throughout the schools. As a result of control weaknesses noted, there is less assurance these monies have been handled and accounted for properly. We reviewed cash controls and procedures at the high school, middle school, and Veterans Elementary School.

#### 3.1 Segregation of duties

The district has not adequately segregated the duties of receiving, recording, and depositing monies at the 3 schools visited, and documented supervisory or independent reviews of the accounting records are not performed. For event admissions and student activities, the treasurer (high school), bookkeeper (middle school), and secretary (elementary school) at the schools receive and record monies, prepare deposits, and post the receipts to the district's financial record-keeping system.

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, periodic supervisory or independent reviews of the records should be performed and documented.

#### 3.2 Receipts and deposits

Significant weaknesses exist in the district's procedures for receipting and depositing activities receipts. Receipt slips are not consistently issued, and staff do not transmit or deposit receipts timely or intact. In addition, petty cash procedures need improvement.

##### Receipt slips and money reports

At the high school, receipt slips were not pre-numbered, generic receipt slip forms were used, the method of payment was not noted on receipt slips, and the composition of receipts was not reconciled to deposits. In addition, established procedures were not always followed for documenting transmittals from faculty and for recording receipts from students.

The high school treasurer receives various fees directly from students and issues receipt slips to the students. The treasurer also receives collections from faculty for event proceeds or fundraisers usually comprising payments from multiple payers. Current procedures require the transmitting faculty member to prepare a money report documenting the total of collections turned over. However, a money report was not prepared for 3 of 25 faculty transmittals reviewed, totaling \$460, during a test period from May 1, 2015, through May 7, 2015. Additionally, during the same period the treasurer did not issue individual receipt slips for collections totaling \$580 from approximately 29 students for senior banquet fees; rather, she recorded the summarized collections on 2 receipt slips.

Issuing official pre-numbered receipt slips and recording the method of payment helps ensure all receipts are accounted for properly. Reconciling



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the composition of receipts to the amounts deposited provides assurance all receipts are being deposited. Adhering to existing procedures regarding cash transmittals and receipt issuance also provides additional assurance all cash receipts are recorded and deposited appropriately.

### Untimely deposits

Receipts were not deposited timely and intact. At the high school, collections were often deposited 2 weeks or more after receipt, and cash and checks retained on hand were excessive. We reviewed the 6 deposits made during the period May 11, 2015, through June 15, 2015, and determined the deposits contained receipts collected 2 weeks or more prior to the deposit, and significant amounts of recent receipts were retained on hand. For example, collections totaling \$32,410 (including \$8,110 in cash) were received from April 20, 2015, through May 11, 2015, but were not deposited until May 26, 2015. The treasurer indicated the reason for the delay in deposits is because she retains up to \$6,000 in cash collections on hand to use for change at the admission gates and concession stands at school events, and she must wait until enough cash receipts are collected to be able to make a full deposit of prior receipts. In effect, the treasurer is borrowing cash receipts for activities for use as change funds at school functions before depositing them. In addition, the treasurer indicated deposits at the end of May are delayed due to the volume of activity near the end of the school year.

The bookkeeper and secretary at the middle school and elementary school, respectively, indicated receipts were generally deposited weekly, but we noted instances at each school where some receipts were held for 2 weeks or more before deposit.

Establishing change funds with district monies, rather than utilizing cash receipts for activities, would allow the high school treasurer to make deposits intact and timely. Depositing all receipts intact and timely helps to reduce the risk of loss, theft, and misuse.

### 3.3 Petty cash and change funds

Change and petty cash funds are not maintained at constant amounts at the high school, and have been used for items inconsistent with their intended use. The high school treasurer indicated cash totaling about \$75 and \$6,000 is retained from cash receipts for petty cash and change funds, respectively, but the total cash funds retained on hand varies and depends upon the amount of cash collections and the expected change fund needs for upcoming events. Furthermore, we noted during a cash count on May 14, 2015, change funds had been used for expenses totaling \$1,874 in excess of the petty cash fund balance and were pending reimbursement from the district.

Maintaining high levels of cash balances requires significant controls be in place. Establishing petty cash and change funds at consistent amounts, and



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ensuring change funds are used only for their intended purposes reduces the risk of loss, theft, and misuse.

## Recommendations

The School Board:

- 3.1 Ensure duties of receipting, recording, and depositing monies are segregated or implement adequate supervisory reviews if duties cannot be appropriately segregated.
- 3.2 Establish change funds at the high school with district monies, and ensure monies are properly receipted, deposited timely and intact, and the composition of receipts is reconciled to the composition of deposits. Also, the Board should ensure transmittals of monies between employees are properly documented.
- 3.3 Ensure change and petty cash funds are used only for their intended purposes and maintained at constant amounts.

## Auditee's Response

- 3.1 *The District agrees that an effective, consistent and efficient system of internal controls is required for petty cash, student activity funds, concessions, event fees and athletics/activities. This system should be a mirror of the general District operations. The District is reviewing and will recommend revisions to the internal financial control procedures that will ensure that the proper safeguarding, segregation and supervision of duties are in place.*
- 3.2 *The District will focus on developing a consistent methodology for receipting and depositing of funds. The District will expand and update current written procedures and provide documented training to all staff with cash handling responsibilities.*
- 3.3 *The District is currently in the process of revising petty cash procedures and processes. All building-level secretaries received overview training on expectations for receipting and recording transactions in August of 2015. In addition, each building's petty cash funding level will be reviewed and possibly be adjusted to be commensurate with the requirements of the building.*

## 4. Personnel and Payroll Policies and Procedures

The district does not have sufficient controls over payroll disbursements to prevent and detect erroneous overpayments, and the district's early retirement incentive is costly and may not be effective.

### 4.1 Payroll disbursements

The district does not have adequate controls to ensure employees are paid proper amounts. During the fiscal year ended June 30, 2015, district payroll expenditures totaled approximately \$20.8 million for 655 employees.



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Wages paid to 4 of 25 employees tested (16 percent) were erroneous, resulting in overpayments to the 4 employees totaling \$633 during the year ended June 30, 2015. For 2 employees (teacher and teacher aide), pay rates exceeded the rates on the district's salary schedules resulting in the employees being overpaid each pay period during the year. Another employee's (bus driver) pay for four pay periods was incorrectly adjusted for leave without pay. In addition, a teacher was paid for more hours in one pay period for covering for absent teachers than the time records indicated were worked. These errors occurred at various stages during the district's salary-setting and payroll preparation processes and were not detected by the district's normal approval processes.

Proper reviews of employment contracts and payroll disbursements are necessary to ensure all payroll transactions are accurate and accounted for properly. Without thorough reviews of payroll documentation, errors, theft, or misuse of district resources could go undetected.

#### 4.2 Early retirement incentive

The district provides an additional retirement benefit to employees in excess of normal public retirement benefits. The district believes the incentive offers cost savings to the district by encouraging early retirement of personnel in higher salaried brackets. However, the district has not performed any analysis regarding how, or if, the program is effective in meeting its objective of promoting early retirement.

Under the program, participating retirees receive payments equal to 50 percent of their final base salary as active employees over 5 or 10 years. During fiscal year 2015, 76 employees received early retirement incentives totaling \$338,002. Also, according to the district's most recently completed independent financial statement audit, the district owed unpaid early retirement incentives of approximately \$1.1 million at June 30, 2014. Board members indicated although the Board has approved the incentive for at least the past 7 years, they were not aware of the total liability associated with the incentive.

An analysis to review the effectiveness of the incentive, relative to the costs of the benefit, is necessary to provide Board members information to determine whether it is in the best interests of the district to continue the program.

## Recommendations

The School Board:

- 4.1 Develop controls to ensure payroll disbursements are accurate.
- 4.2 Analyze the effectiveness of the early retirement incentive, as well as the costs of the program, to determine whether the program should be continued.



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## Auditee's Response

4.1 *The District agrees that an effective, consistent and efficient system of internal controls is required for employment contracts and payroll disbursements.*

*When this shortcoming was revealed during the audit process, the District implemented a redundant system of review during the contract data entry process to assure that errors have been detected and/or corrected to the correct amount.*

4.2 *The Board of Education will do an analysis of the early retirement incentive program to ensure it is cost effective and advantageous to the financial operations of the school district. By January 2016, the Board of Education will determine whether or not this plan should be approved.*

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## 5. Electronic Data Security

Controls over district computer systems are not sufficient to prevent unauthorized access. As a result, the district's electronic data is unprotected and susceptible to damage or theft.

### 5.1 Password controls

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

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

### 5.2 Security controls

Security controls are not in place in any of the district offices to shut down a computer after a certain period of inactivity or lock it after a specified number of incorrect logon attempts. Inactivity controls are necessary to reduce the risk of unauthorized individuals accessing an unattended computer and having potentially unrestricted access to programs and data files. Logon attempt controls lock the capability to access a system after a specified number of consecutive invalid logon attempts and are necessary to prevent unauthorized individuals from continually attempting to logon to a system by guessing passwords. Without effective security controls, there is an increased risk of unauthorized access to systems and the unauthorized use, modification, or destruction of data.



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## Recommendations

The School Board:

- 5.1 Require a unique password that is periodically changed to prevent unauthorized access to district systems.
- 5.2 Require each district computer have security controls in place to shut down the computer after a certain period of inactivity and lock it after a specified number of incorrect logon attempts.

## Auditee's Response

- 5.1 *All students, faculty and staff have unique log-in and passwords within the District computer network. These passwords have not required routine changes in the past. The District agrees that an effective, consistent and efficient system of internal controls for passwords is required and will be investigated for implementation.*

*The District's operating systems (Student Data, Finance and Operations), which are housed inside the network, have a unique set of log-in and passwords for each and must be entered prior to gaining access to the operating systems, which provides redundant security. In addition, the software for those operating systems has built in password controls that require password changes on a routine basis.*

- 5.2 *Power management controls have been added to all District computers that will force individual computers into "hibernation" mode after a period of inactivity. This control requires the user to log back into the system before the computer can be accessed or used.*

*The District agrees that an effective, consistent and efficient system of internal controls for logon protection is beneficial and will be investigated for implementation.*

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## 6. School Bus Replacement Policy

The district has not adopted a bus replacement policy to plan for the replacement of the high number of old and high mileage buses in its fleet.

As of the end of the 2014-2015 school year, the district's fleet of 35 buses included 12 buses more than 12 years old. According to information from the National Association of State Directors of Pupil Transportation, school buses should be replaced after 12 to 15 years of age, and buses accumulating high annual mileage should be replaced more frequently. Older school buses are more costly to operate and maintain than newer buses while newer school buses also reflect improvements in safety, efficiency, and emissions.

The district replaced 3 buses in each of the last 3 years, and according to the business manager, intends to continue replacing 3 buses per year as district



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funds allow. Each of those acquisitions cost about \$250,000 and the district financed them via 5 year lease-purchase agreements with annual payments totaling about \$55,000. However, the district's replacement plans will be insufficient to effectively reduce the number of old buses in the fleet. Based on district data, even after 5 consecutive years of replacing 3 buses per year, the district will still have 11 buses meeting the 12 years or older criteria. The high number of older buses represents a potential significant future expense for the district.

To provide an effective framework from which future bus replacement decisions could be made, the district should develop a bus replacement policy that considers costs, age, mileage and safety.

## Recommendation

The School Board develop a school bus replacement policy to minimize the number of fleet buses 12 years or older.

## Auditee's Response

*The District operates a fleet of well-maintained buses that consistently exceed the state inspection levels. The District's bus fleets have had two consecutive years of perfect inspections by the Missouri Highway Patrol and are maintained by a predictive and preventative maintenance schedule.*

*While the average age of the buses in the Hannibal School exceeds the state average, they are well maintained and serviced. The District reviews the need for replacement/rotation of the fleet on an annual basis. The criterion is based on student ridership requirements, age, hours, mileage, and body/mechanical condition of each bus in the fleet.*

*The Board of Education will develop and implement a written school bus replacement policy that establishes a bus replacement schedule based on available funding, ridership requirements, age, hours, mileage and body/mechanical condition of the bus fleet.*

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## 7. Capital Assets

The district has not developed adequate property procedures and records for capital assets.

### 7.1 Records and physical inventory procedures

The district's capital asset records are not complete and are not updated timely when purchases and dispositions occur and physical inventory procedures are not adequate. District asset records are generally updated annually when physical inventories are performed. Performing physical inventories with incomplete asset listings does not ensure all assets are accounted for properly. Also, these listings are summarized, providing the number of like items in the same location, and provide no information other than location and general description of the items. A separate listing of technology items is maintained by the district and updated as items are acquired and disposed, but it is not reconciled to the records used for physical inventories and the listing lacks acquisition date, acquisition cost, and disposition information.



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Adequate capital asset records are necessary to secure better internal control over district property and provide a basis for determining proper insurance coverage. Capital asset records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur, and include a detailed description of the assets such as acquisition cost, descriptions, make and model numbers, and asset identification numbers; the physical location of the assets; and the date and method of disposition of the assets.

## 7.2 Property tags

The district has not tagged or otherwise identified all property items as belonging to the district. Many assets have tags affixed indicating the assigned location and number, but the numbers are not sequential and the tags do not clearly designate ownership by the district.

Property control tags should be affixed to all property items to help improve accountability and ensure assets are properly identified as belonging to the district.

## Recommendations

The School Board:

- 7.1 Ensure complete, accurate, and detailed capital asset records are maintained on a perpetual basis and utilized to perform physical inventories.
- 7.2 Ensure sequentially numbered property control tags are affixed to all property.

## Auditee's Response

- 7.1 *Prior to the audit, the District recognized that its capital asset control system was antiquated and inadequate. In 2015, the District has reviewed several software systems to make the necessary improvements to the system, methods and records.*

*The District will annually train personnel on the requirements and methods of accurate inventory controls. A baseline physical inventory will be performed and documented in a computer-based system during the 2015-16 school year. In addition, the annual full physical inventory will be conducted to review the functionality and accuracy of the new system.*

*District building administrators will monitor the new process and report to Central Office on a routine basis the status of their capital and consumable inventories.*

- 7.2 *Sequentially numbered inventory tags stating "Property of Hannibal School District" will be purchased and affixed to all existing property during the baseline inventory process.*



Hannibal School District #60  
Management Advisory Report - State Auditor's Findings

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*In addition, as new capital assets are received, property tags will be affixed to that property and added to the property inventory listing for accuracy and consistency.*

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# Hannibal School District #60

## Organization and Statistical Information

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The Hannibal School District #60 is located in Marion and Ralls counties.

The district operates a senior high school (grades 9-12), a middle school (grades 6-8), 5 elementary schools (grades PK-5), an early childhood center, and a career and technical center. Enrollment was 3,762 for the 2014-2015 school year. The district employed 655 full- and part-time employees, at June 30, 2015.

The Hannibal School District #60 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. Board of Education members at June 30, 2015, were

David Jackson, President  
Mark Bross, Vice-President  
Michael Holliday, Treasurer  
Erik Gottman, Member  
Linda Clark, Member  
Terry Sampson, Member  
Mark Dowil, Member

### Superintendent

The district's superintendent at June 30, 2015, was Susan Johnson and her annual compensation was \$114,996. The superintendent's compensation is established by the Board of Education.

### Financial Activity

A summary of the district's financial activity for the year ended June 30, 2015, follows:

Hannibal School District #60  
Statement of Revenues Collected, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2015

	General (Incidental) Fund	Special Revenue (Teachers') Fund	Debt Service Fund	Capital Projects Fund	Totals
<b>REVENUES COLLECTED</b>					
Local	\$ 10,016,058	3,504,774	2,704,245	2,934	16,228,011
County	729,750	125,778	124,176	94,954	1,074,658
State	469,420	14,067,697	0	319,796	14,856,913
Federal	1,534,329	1,732,287	0	0	3,266,616
Other	0	136,490	9,314,798	2,409	9,453,697
<b>TOTAL REVENUES COLLECTED</b>	<b>12,749,557</b>	<b>19,567,026</b>	<b>12,143,219</b>	<b>420,093</b>	<b>44,879,895</b>
<b>EXPENDITURES</b>					
Instruction	2,959,065	17,317,398	0	179,570	20,456,033
Student services	301,782	781,773	0	0	1,083,555
Instructional staff support	583,703	402,425	0	14,333	1,000,461
Building administration	741,355	1,307,145	0	3,510	2,052,010
General administration	596,267	663,186	0	66,664	1,326,117
Operation of plant	3,090,686	0	0	327,122	3,417,808
Transportation	1,103,397	85,568	0	105,273	1,294,238
Food service	1,925,055	0	0	0	1,925,055
Adult basic education	963	23,174	0	0	24,137
Adult continuing education	0	3,246	0	0	3,246
Community services	410,042	647,314	0	0	1,057,356
Debt service	0	0	11,845,612	592,714	12,438,326
<b>TOTAL EXPENDITURES</b>	<b>11,712,315</b>	<b>21,231,229</b>	<b>11,845,612</b>	<b>1,289,186</b>	<b>46,078,342</b>
<b>EXCESS (DEFICIT) OF REVENUES COLLECTED OVER EXPENDITURES</b>	<b>1,037,242</b>	<b>(1,664,203)</b>	<b>297,607</b>	<b>(869,093)</b>	<b>(1,198,447)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	0	1,664,203	0	869,093	2,533,296
Operating transfers out	(2,533,296)	0	0	0	(2,533,296)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,533,296)</b>	<b>1,664,203</b>	<b>0</b>	<b>869,093</b>	<b>0</b>
<b>EXCESS (DEFICIT) OF REVENUES COLLECTED AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)</b>	<b>(1,496,054)</b>	<b>0</b>	<b>297,607</b>	<b>0</b>	<b>(1,198,447)</b>
FUND BALANCE, July 1, 2014	3,046,167	0	568,612	50,000	3,664,779
FUND BALANCE, June 30, 2015	\$ 1,550,113	0	866,219	50,000	2,466,332

Source: District's Annual Secretary of the Board Report for the year ended June 30, 2015.