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MISSOURI STATE AUDITOR

Investigative Summary Hannibal 60 School District

Summary of Significant Complaint(s) Reported

The State Auditor's Office received complaints regarding the fiscal management of the Hannibal 60 School District. Concerns include the projected budget deficit, the lack of fiscal knowledge and budget awareness by key administrators, and questionable use of Elementary and Secondary School Emergency Relief (ESSER)¹ funds. The complainant also indicates there is a lack of internal controls over district disbursements including credit card purchases and the Superintendent's contract provided for additional compensation through contributions to her retirement plan.

Background

The Hannibal 60 School District is located in the eastern part of Missouri, covering parts of Marion and Ralls counties. The district operates a high school (grades 9-12), a career and technical center, a junior high school (grades 6-8), five elementary schools (grades K-5), and an early childhood center (PreK). Enrollment was 3,203 for the 2023-2024 school year. The district employed 604 employees, at June 30, 2024. The district has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

Complaint Review

To review complaints we requested and reviewed bank account information, credit card statements, ESSER Fund disbursements, employee reimbursements, Superintendent contracts and benefit information, disbursement policies and procedures, budget and financial documents, and open and closed meeting minutes.

Budget Shortfall

It appears the Board and district officials and the Board could have anticipated some of the factors that led to the district's poor financial condition, but may not have had the necessary understanding of the district's finances and budget to do so. In addition, the budget for the 2024-2025 school year does not provide necessary information for it to be of use to the Board or the public and does not comply with statute.

In early 2024, district officials determined there was a \$3.3 million budget shortfall. The shortfall was well publicized and the incoming Superintendent cited it as one of the reasons he chose rescind his acceptance of the position. In March 2024, the Superintendent indicated various unpredictable revenue and expenditure factors contributed to the shortfall including a decrease in student enrollment, loss of ESSER funds, increase in student absences, an assessed valuation less than predicted, decreased tax revenue due to local business closures, additional staffing and resource needs, over budget capital projects, increased supplies costs, and salary and benefit increases. The Superintendent reported to the Board that district officials would closely monitor expenditures, reduce staff through attrition, and recommended the Board reevaluate the voluntary tax levy rollback to address shortfalls.

¹ ESSER funding is federal grant funding provided in response to the COVID-19 pandemic. The funding was provided in three grants, ESSER, ESSER II, and ESSER III, with each having specific requirements for allowable uses and reporting.

A review of current and prior year financial, budget, enrollment, and attendance data indicates some of the factors impacting the district's finances were known or continuing issues. For example, the loss of one-time ESSER funding should have been anticipated and planned for. District budget documents show 2024-2025 total budgeted revenues of \$49 million, which is comparable to the 2021-2022 and 2022-2023 school years (the years prior to significant ESSER II and III funding) total revenues of \$45 million and \$48 million, respectively. District officials could have used these pre-ESSER amounts as a guide for 2023-2024 and 2024-2025 revenues. Additionally, a review of enrollment and attendance data for the 2018-2019 through 2022-2023 school years indicates kindergarten through twelfth grade enrollment and attendance have generally declined each year. The continuation of this trend should not have been unexpected. The Superintendent also cited increased costs as a factor in the district's financial condition. However, board meeting minutes indicate district officials presented financial and budget reports to the Board and it appears officials and the Board could have used these to identify expenditure concerns sooner.

As noted, the district took steps to address the budget shortfall when it was realized. It is essential the district continue to address its financial condition in both the immediate and long-term future. This includes developing procedures to estimate and monitor revenues; continuing to evaluate spending, controls, and management practices to ensure the efficient use of resources; and monitoring detailed financial and budget information for each fund.

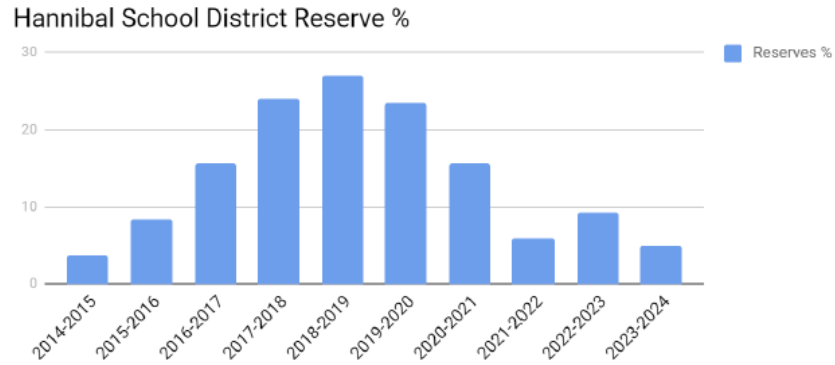
2024-2025 School Year Budget

The 2024-2025 budget, approved by the Board in June 2024, does not provide sufficient information to be a useful management tool or provide the Board or public an overview of the district's current and planned finances.

The budget does not include actual or estimated revenues and expenditures for the preceding year (the 2023-2024 school year) as required. Instead the budget only presents actual information for the 2020-2021, 2021-2022, and 2022-2023 school years. This does not allow for a comparison of the immediate prior year's activity to the budgeted amounts. The budget also does not present any fund level summary information and does not include beginning and ending balances by fund for the current and prior years. The revenue and expenditure data is instead presented by accounting code and requires aggregating the various amounts to determine total revenues by fund or activity type. For example, there are three line items for travel expenditures, based on the various accounting system coding for the expenditures. This prevents any easy comparison to prior year activity or the ability to determine which funds are impacted most by revenue and expenditure changes. Also, by not presenting beginning fund balances, it is difficult to know how much of existing reserves are being used to offset estimated expenditures. Instead, the budget indicates overall current year revenues and expenditures, aggregated for all funds, of approximately \$49.8 million and \$49.7, respectively.

The budget does reflect steps taken by the district to address its financial condition, as total budgeted revenues are estimated to exceed budgeted expenditures by approximately \$130,000. The graph on the next page, from the 2024-2025 budget², indicates the fund balance reserve percentage has declined from a high of over 25 percent for the 2018-2019 school year to an estimated 5 percent for the 2023-2024 school year. District officials indicated the actual percentage for the 2023-2024 school year is 4.3 percent based on final financial information. The Department of Elementary and Secondary Education, in accordance with Section 161.520, RSMo, considers districts with a less than 3 percent unrestricted fund balance reserve to be financially stressed.

² Hannibal 60 School District, *2024-2025 Budget*, < https://core-docs.s3.us-east-1.amazonaws.com/documents/asset/uploaded_file/3366/HSD/4556469/2024-2025_Budget.pdf>, accessed October 2, 2024.



Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the information to be included such as comparative statements of actual or estimated revenues and expenditures for the two preceding years. A complete, timely, and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of district operations. It also assists in setting tax levies and employee salaries and stipends, and informing the public about district operations and current finances. Realistic projections of the district's revenues and expenditures are essential for the efficient management of finances and for communicating accurate financial data to taxpayers. Adopting a budget that does not include fund level or prior year information or beginning or ending balances is misleading to the public and prevents an accurate estimate of the district's financial condition.

District Expenditures

As noted, the Superintendent cited increased expenditures as a contributing factor to budget shortfalls as well as the loss of ESSER funding. The most significant expenditure of the district is payroll and it appears the district did use one-time ESSER funding to sustain payroll expenditures for a period of time. The Superintendent indicated the district would attempt to reduce payroll expenditures through attrition and evaluating faculty needs given reduced enrollment. However, any staff reductions would have to be weighed against potential educational impacts. The district did make efforts to curb other expenditures and initiated a spending freeze for some expenditures in early 2024. A review of such expenditures earlier in the school year may have alerted the Board and district officials to budget overruns and the need for earlier intervention.

We reviewed select expenditure documentation, including ESSER and credit card purchases, and did not identify any that appeared fraudulent, for personal use, or otherwise inappropriate. ESSER funds were used for sanitation and personal protection items in response to COVID-19, payroll related expenditures, educational materials and technology, and software licenses. All appear allowable with the grant funding. However, the use of limited-time funding for routine expenditures, such as payroll, put the district at a disadvantage when the funding ended and will require the district to replace the lost revenue or further reduce expenditures.

Our review also noted documentation to support the purpose of some food and travel purchases was not available. Most purchases appeared to be for professional development, student activities, or faculty appreciation, but we could not verify this without supporting documentation. District officials indicated the district booster club reimburses the district for much of the student activity travel and use of the credit card for these types of purchases was put on hold with the spending freeze, which appears appropriate.

A review of the Superintendent's contract indicates there are provisions for contributions to the Public School Retirement System account of an "additional thirteen and a half percent (14.5%) of the Superintendent's gross compensation..." and to an annuity program. District officials indicated that, because of the discrepancy between the "thirteen and a half percent" language in the contract and the "14.5%" contained in the contract language's parenthetical, the district has not made the retirement system contributions. The Superintendent has also not pursued them due to the district's financial condition. This discrepancy is in both the 2022 and 2023 (current) versions of the contract. None of the provisions for additional Superintendent compensation appear inappropriate; however it appears the Board should review future contracts carefully to ensure the language is accurate and clear.

Conclusion

In our review of complaints, we found no indication of fraud or corruption. However, our review noted the district is in a weakened financial position and it appears district officials could have anticipated some of the contributing factors to its financial condition. District officials have taken some steps to address its financial condition. We also noted the district's budget does not include enough information to be a useful management tool or meet statutory requirements. Additionally documentation was not available to support the purpose for all expenditures reviewed and the Superintendent's contract includes a discrepancy that has prevented the district from making retirement contributions. We will prepare a closing letter indicating the investigation notes no indication of fraud or corruption, but the district should continue to closely monitor its financial condition, prepare useful budgets that comply with statute, and strengthen expenditure controls.