



Susan Montee, JD, CPA
Missouri State Auditor

Liberty 53 School District



July 2009

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Office of the
Missouri State Auditor
Susan Montee, JD, CPA

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The following findings were included in our audit report on the Liberty 53 School District.

The district's financial condition has declined and is expected to further deteriorate. The operating funds balance at June 30, 2008, was \$12.7 million and is projected to be deficient by \$12.9 million at June 30, 2011, if major modifications are not made to disbursements. Prior administrations have spent irresponsibly during prosperous times, failing to make concessions needed to maintain financial stability during leaner times. In addition, prior administrations did not have adequate long-term financial plans. According to district officials, significant, unsustainable raises have been given to teachers and administrators in the past several years. The district's 5-year strategic plan is now out-of-date, having last been updated in fiscal year 2004.

Costs of capital improvements to be paid from various bond issues were not adequately tracked, causing cost overruns and contributing to the deteriorating financial situation of the district. Subsequent bond issues and other financing measures were used to pay for some of these capital improvements. Over \$7.25 million in capital improvement disbursements reviewed by the independent CPA for the period July 1, 2004 through June 30, 2008, were coded to the Operating Fund, rather than the Capital Improvement Fund. Additionally, budget amendments were not prepared timely.

"550-Retiree" employment contracts did not appear reasonable and were not supported by documentation of time worked. In addition, the consulting provision in former Superintendent Taveau's amended contract was not adequately defined. Travel allowances paid to executives/directors, principals, and assistant principals are not included in contracts or approved by the School Board and travel allowances paid the principals and assistant principals are not supported by actual mileage and are not included on W-2 forms.

Several purchases were not competitively bid or competitive requests for proposals were not obtained. The district does not periodically solicit engineering/architectural and surveying/planning services for its construction projects, as required by district policy and state law. Per district officials, the services of the same two firms have been used since at least 1999. The district has not conducted, or periodically re-conducted, a selection process for other professional services, and the same vendors have been used for several years. In fiscal year 2008, the school district issued \$15.2 million in Missouri School Boards' Association Insured Lease Participation Certificates and \$58 million in general obligation school building bonds. The district sold these certificates and bonds through a negotiated sale instead of a competitive sale. In addition, since at least 1997, the School Board has been using the same bond underwriter who also acts in a dual capacity as

YELLOW SHEET

financial advisor.

Credit cards were frequently used to purchase meals at local restaurants and the district often provided food for meetings involving district personnel. The purpose of the meals and those attending were not always documented. The district has not developed a mechanism to track these local food purchases and we were unable to gather information regarding the extent of such purchases. Supporting documentation was not retained for some credit card purchases and purchasing card transaction limits for some individuals may be excessive. Several invoices approved for payment by the district included state sales tax.

There were several real estate contracts entered into without board approval and a request for proposal (RFP) was not issued soliciting the real estate services of the firm handling real estate transactions.

The district did not analyze the cost-effectiveness of the proposed contract with the local country club versus building tennis facilities in the city park. Additionally, the district did not properly bid for the construction of the tennis courts and the construction of the project was allowed to begin before a written agreement between the district and contractor was executed.

Other audit findings in the audit report relate to vehicle and fuel usage, transportation costs, wireless communication devices, follow up actions regarding our safe school initiative review, the Flintlock Flyover Project, contracts with Scientific Learning for implementation of the Fast Forward program, and contracts with the Cooperating School District of Greater Kansas City.

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LIBERTY 53 SCHOOL DISTRICT

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STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Board of Education
Liberty 53 School District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Liberty 53 School District. The school district engaged Westbrook and Co., P.C., Certified Public Accountants (CPAs), to audit the school district's financial statements for the year ended June 30, 2008. In addition, Westbrook and Co., P.C., was engaged to perform an agreed upon procedures audit of the district's accounting and financial systems for the period ended July 1, 2005, to March 10, 2008. To minimize duplication of effort, we reviewed the reports and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2008. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the school district has adequate internal controls over significant management and financial functions.
3. Determine if the school district has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the school 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. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We 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. However, providing an opinion on

compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Liberty 53 School District.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CIA, CGFM
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Robert L. McArthur II
Audit Staff:	Brian S. Huff

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

LIBERTY 53 SCHOOL DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Financial Condition and Planning

The district's financial condition is declining resulting in the need for significant budget cuts. In addition, the district needs to update its strategic plan and adopt a formal, long-range district facility use plan.

A. The district's financial condition has declined and based on the fiscal year 2009 budget, amended in November 2008, and fiscal year 2010 and 2011 projections, is expected to further deteriorate. The operating funds balance at June 30, 2008, was \$12.7 million and is projected to be deficient by \$12.9 million at June 30, 2011, if major cuts are not made to disbursements.

A school district with a fund balance of less than 3 percent of the amount expended the previous fiscal year is considered to be "financially stressed" per Section 161.520, RSMo. The following table depicts actual fiscal year 2007 and 2008, amended budget fiscal year 2009, and projected fiscal year 2010 and 2011 financial information for the operating funds.

	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Amended Budget Fiscal Year 2009	Projection Fiscal Year 2010	Projection Fiscal Year 2011
Beginning					
Fund Balance	\$ 15,647,903	15,801,952	12,739,822	11,735,918	4,000,475
Receipts	90,334,887	98,933,814	109,151,065	109,553,754	113,490,955
Disbursements*	90,180,838	101,995,944	110,154,969	117,289,197	130,418,947
Ending					
Fund Balance	\$ 15,801,952	12,739,822	11,735,918	4,000,475	(12,927,517)

* Fiscal year 2010 and 2011 projected disbursements do not include \$17.5 million in possible reoccurring reductions (permanent cuts of \$7.5 million for fiscal year 2010 and every year thereafter, plus \$10 million additional permanent cuts for fiscal year 2011 and every year thereafter, for a total of \$17.5 million in reoccurring reductions) that may be needed in order to maintain an operating funds balance which is 10 percent of operating funds disbursements (approximate amount needed to make payroll at calendar year end without borrowing).

Prior administrations have spent irresponsibly during prosperous times, failing to make concessions needed to maintain financial stability during leaner times (see

discussion of salaries below and capital improvements/use of bond proceeds discussed in Management Advisory Report (MAR) finding number 2). In addition, prior administrations did not have adequate long-term financial plans. Although the budget process provides annual financial planning, future year projections were not adequate to ensure the stability of district fund balances. For example, the district has been planning for over a year to construct and open its tenth elementary school in fiscal year 2010 and second high school in fiscal year 2011. Construction costs of these two facilities will be paid with funds from the 2008 bond issue approved by voters in April 2008. However, due to the increasing costs of construction, no bond monies will remain to pay for the combined start-up costs of the facilities, estimated at \$7.5 million. New teacher salaries for these two facilities have been estimated at an additional \$3.5 million per year. These costs were not figured into prior disbursement projections and now must be paid with district operating funds. Therefore, \$11 million of the \$17.5 million in cuts needed to maintain the district's operating funds balance at an acceptable level can be directly related to the additional costs that will be incurred with the opening of the two new facilities.

Another area of concern is salaries. According to district officials, significant, unsustainable raises have been given to teachers and administrators in the past several years. The mindset of continually giving large annual pay increases appears supported by one of the objectives/strategies of the district's 2004 strategic plan. The plan indicates the district should continue to improve and maintain a high level of personnel compensation that will rank in the top three of comparable school districts in the Kansas City metropolitan area. Data gathered annually by the Missouri National Education Association actually ranks Liberty 53 School District teachers' potential career earnings as Number 1 in the Kansas City metropolitan area (based on fiscal year 2008 salary schedules). Salaries and employee benefits account for over 78 percent of the district's operating funds disbursements for fiscal year 2008 (not including transfers to the Capital Projects Fund). As a result, the district is now faced with cutting programs and terminating employees to meet estimated required reductions.

The School Board should ensure policies, procedures, and records are in place to address the areas of concern included in this report that may also have contributed to the financial decline of the district including inadequate planning and financial monitoring, unreasonable compensation or consulting contracts, not obtaining bids and proposals for many purchases, and inappropriate or unreasonable purchases and disbursements.

While reductions in disbursements appear necessary, the district's financial condition can also be improved with more effective management practices and more effective controls and procedures. Various needed improvements are discussed throughout this report.

- B. The district's 5-year strategic plan is now out-of-date, having last been updated in fiscal year 2004. In addition, the district has failed to adopt a formal, long-range district facility use plan as proposed in the 2004 strategic plan.

Since 2004, the district has completed construction of a new middle school and junior high, constructed two new elementary schools, made additions to three other elementary schools, purchased what is commonly referred to as the Blue Jay Tower (BJT), and purchased a new Early Childhood Center (previously the United Auto Workers (UAW)-Ford Family Service and Learning Center). In addition, the district has installed energy management systems in most of the district buildings, purchased land for future middle/junior high school development, and recently begun construction of another elementary school, as well as a second high school.

Long-term strategic planning is necessary to ensure the district can provide and maintain sufficient facilities to address increases or decreases in enrollment. In 2004, when the last strategic plan was prepared, district-wide enrollment was 7,786 students. In the fall of 2008, enrollment was 9,532 students.

WE RECOMMEND the School Board:

- A. Closely monitor and take appropriate action to ensure the long-term stability of the district's financial condition. The School Board should implement the various recommendations throughout this report to help improve the financial condition of the district.
- B. Update the 5-year strategic plan and adopt a formal, long-range district facility use plan. The facility use plan should be prepared, reviewed, and updated annually in conjunction with the preparation of the annual budget.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The Board has aggressively taken action to work toward attaining long-term stability in the District with current year and future year reductions. In addition to working toward establishing an adequate fund balance, the Board recognizes that balances must also ensure the opening and operation of two new schools in the next two years; Kellybrook Elementary School and Liberty North High School. As of April 2009, the Board has approved total operating expenditure reductions to the current year budget in the amount of \$3,667,713 while the operating funds revenue budget has been reduced by \$890,656, resulting in a net increase to the operating fund balance of \$2,777,057. With these amendments, the projected June 30, 2009 ending operating fund balance percentage is 10 %. A fund balance of approximately 18-20 percent is necessary to allow the District to fund operational obligations and avoid borrowing prior to receiving local tax revenue in December and January of each year. The Board anticipates this percentage will*

increase as the year ends and additional unused funds are identified. The Board and administration have implemented a multi-tiered approach to the budget reduction process. By February 2009, the Board approved Tier I Budget Reductions for a 2009-2010 school year implementation, estimated at \$6 million. The directive of the Board to administration through this process emphasized the necessity to minimally impact student learning; protect the quality instructional programs and meet the needs of all children. Decisions to eliminate programs and positions as part of the first tier of budgetary reductions were intended to minimize the effect on our students as a whole while reducing recurring expenses the District simply could not continue to incur.

The Board has directed administration to continue identifying additional budget reductions necessary to create a sustainable financial future for the District. Administration is in the process of developing a team for a comprehensive review of Tier II Budget Reductions for recommendation to the Board. The Tier II reductions will be implemented the 2010-2011 fiscal year. The District's growth and assessed valuation are significant factors to be considered in the formulation of additional reductions. Specific recommendations in this report have been implemented and other suggestions will be studied and seriously considered for implementation.

- B. *The Board will be provided an updated strategic plan from administration in the coming months. Steps are underway to form a facility study team and recommendations from this team will be incorporated into the overall strategic plan. Five-year financial projections will be updated to align with this strategic plan and will be published to the Board and the public.*

2. Financial Monitoring and Budgets
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The use of bond proceeds was not adequately tracked and capital improvement disbursements were improperly coded. In addition, budget amendments were not prepared in a timely manner.

- A. Costs of capital improvements paid from various bond issues were not adequately tracked, causing cost overruns and contributing to the financial situation discussed in MAR finding number 1. Subsequent bond issues and other financing measures were used to pay for some of these capital improvements.

In November 2005, Assistant Superintendent of Support Services Brewer determined capital improvement costs to be paid from the 1997 and 2000 bond issues were approximately \$13.5 million more than the bond issues, resulting from a combination of cost overruns and unplanned projects. In addition, it was determined the remaining balance in the Bond Fund at that time would not be adequate to fund the remaining unfinished projects promised to voters prior to their approval of the \$31.5 million 2004 bond issue.

Subsequent to the identification of this shortage, the district paid for the majority of the \$13.77 million cost to build and equip the new South Valley Junior High School from a combination of the district's Capital Projects Fund (\$5 million) and proceeds of the 2004 bond issuance (\$8.77 million). The district originally told the public proceeds of the 2000 bond issue would pay for this project. The district then paid approximately \$4.5 million of the cost of constructing the new Warren Hills Elementary School from the Capital Projects Fund. Again, the district told the public the proceeds of the 2004 bond issue would pay for this project. In the mailer to the public requesting voters approve the 2004 bond issue was a statement indicating the district had a history of keeping its promises and the 2000 bond issue was used to construct, among other projects, a new junior high school; however, the bond monies were not used for this building.

Other projects the district promised would be paid from the 2004 bond issue were delayed. The Lillian Schumacher Elementary (LSE) second floor addition (\$1.4 million) was not completed until fiscal year 2008. The Liberty Junior High School auditorium renovation (\$1.3 million) was not completed until March 2009. Because the 2004 bond funds had already been expended, both of these projects, as well as various technology upgrades throughout the district, were funded from other sources (i.e., Capital Projects Fund and lease purchase discussed below).

In September 2007, to cover the previously identified shortfalls and pay for additional purchases not originally planned, the district entered into a \$15.2 million lease purchase agreement. This lease purchase covered the majority of the costs of the LSE second floor addition, the purchase of a new Early Childhood Center at a cost of approximately \$4.8 million, the purchase of BJT at a cost of approximately \$4.25 million, and the purchase of district buses and various technology upgrades. As a result of the \$15.2 million lease purchase agreement, the district is now left with an annual lease payment of approximately \$1.25 million for the next 20 years, decreasing the district's ability to make capital improvements in the future.

The chart below shows the projects the district planned to finance with the issuance of the 2000 and 2004 bonds, the actual funding source of the projects, the projects' costs, and unplanned projects paid for from these bond issues.

	Projects' Funding Source			
	2000 Bonds \$36 million	2004 Bonds \$31.5 million	Capital Projects Fund	Lease Purchase
2000 Bond Issue Planned Projects -				
<u>Phase I</u>				
South Valley Middle School Construction, including land	\$16,065,272	233,085	1,507,371	0
Early Childhood Center/Administrative Center				
Construction	4,532,931	4,850	0	0
Support Service Center	3,937,622	0	0	0
<u>Phase II</u>				
South Valley Junior High Construction	0	8,770,730	5,019,707	0
Alexander Doniphan Elementary Addition	1,298,379	308,844	0	0
Lewis and Clark Elementary Addition	1,080,429	182,239	11,990	0
Lillian Schumacher Elementary Addition	1,278,947	313,775	8,175	0
Shoal Creek Elementary Addition	1,284,234	197,872	10,475	0
2004 Bond Issue Planned Projects -				
Liberty Oaks Elementary Construction		9,989,574	0	0
Warren Hills Elementary Construction		6,980,116	4,534,887	0
Liberty Junior High School Improvements (auditorium) *		0	827,637	400,430
Early Childhood Center Improvements		0	197,804	0
Franklin Elementary Improvements		1,895,053	106,340	0
Manor Hill Elementary Improvements		1,893,316	106,340	0
Lillian Schumacher Elementary 2nd Floor Addition *		0	329,753	1,080,941
Technology Updates **		0	758,662	Unknown
Purchase Land for Second High School		933,018	39,986	0
Additional Projects (planned funding source) -				
Shoal Creek Elementary (1997 Bonds)	4,032,814	0		
Lillian Schumacher Elementary (1997 Bonds)	143,718	0		
Liberty Junior High School Phase II (Capital Projects Fund)	1,508,479	0		
Liberty Junior High School Air Conditioning (Capital Projects Fund)	1,856,079	0		
Warren Hills Elementary Land (unplanned)	249,735	260,000		
Technology/Phone (Capital Projects Fund)	90,582	0		
Other Acquisition, Construction or Site Improvement Costs (unplanned)	39,238	1,294,467		
Bond Issuance Costs	538,552	398,945		

* Amounts as reported through October 2008.

** Exact amount classified as technology upgrades could not be determined.

As previously noted, adequate financial planning was lacking. In addition, budgets for capital improvements were usually a lump sum total classified as "All District." There were usually no individual budget line items for each project or purchase under consideration. When more detail was added to the district budget, various projects were simply not budgeted. Potential budget concerns such as

overspending were always taken care of by the district through its budget amendment process in June each year as discussed below in Part C.

In addition, ballot language for each bond issue is generic, allowing the district to use the funds for basically any capital improvement. For future bond issues, the district should closely adhere to its original promises for use of the bond funds, if for no other reason than to maintain the public's trust. In addition, each proposed project to be paid for from bond proceeds should be separately budgeted and tracked.

To ensure bond monies are spent for their promised purposes, the district should develop a system for budgeting and tracking costs related to each project paid from each bond issue. In addition, monitoring of these reports periodically will help identify how projects are progressing and point out potential shortfalls in a timely manner.

- B. The district did not code capital improvement disbursements properly. In addition, the ASBR submitted to the DESE was inaccurate. Accounting codes are used to help track disbursements by budget area including fund and object code, and to report the disbursements on the Annual Secretary of the Board Report (ASBR) to the Department of Elementary and Secondary Education (DESE). Over \$7.25 million in capital improvement disbursements reviewed by the independent CPA for the period July 1, 2004 through June 30, 2008, were coded incorrectly. Capital improvement disbursements were coded to the Operating Fund rather than the Capital Improvements Fund to further offset the overruns and shortages discussed in Part A above.

Improper coding of transactions causes the actual disbursement information for the various accounts to be inaccurate. As a result, the actual account balances are unknown and cannot be accurately compared to the budgets and the board cannot effectively monitor the district's financial condition.

To establish consistency and accountability among school districts, the DESE provides districts with financial recording guidelines in the Missouri Financial Accounting Manual. The DESE has established account codes to track receipts, disbursements, and other transactions. The DESE account code structure is designed as a means of efficient record keeping, as well as a basic management tool. It also allows comparability of financial transactions among districts. Without consistent adherence to the DESE account code guidelines, the district's financial reports do not properly reflect the financial transactions of the district.

- C. Budget amendments were not approved in a timely manner. District officials indicated amending the district's budget at the end of the fiscal year has been standard practice for several years. In addition, district officials indicated prior budget amendments were often significant.

The School Board amended its 2007-2008 budget on June 23, 2008. With this budget amendment, total budgeted receipts increased approximately \$46 million while budgeted disbursements decreased approximately \$12 million. The amendments were primarily the result of the district's 2008 bond issuance. The 2006-2007 budget was also amended late in the fiscal year on June 18, 2007. With this amendment, budgeted receipts increased \$4.1 million while budgeted disbursements increased \$3.8 million. The increase in budgeted disbursements was primarily the result of additional operating expenses, including special projects, grants, instruction, legal fees, maintenance, and transportation costs.

In light of the district's declining financial position, it is imperative for the district to prepare accurate budget estimates on a timely basis and for the board to closely monitor actual receipts and disbursements. If necessary, budget amendments should be adopted in a timely manner.

WE RECOMMEND the School Board:

- A. Complete proposed capital improvements as promised, separately tracking the budget and actual cost of each proposed project or purchase to support the use of applicable bond proceeds. In addition, ballot language for future bond issues should be more specific.
- B. Establish procedures to ensure disbursements are coded to the proper accounting codes.
- C. Ensure amendments to the budget are identified and approved in a timely manner.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The Board receives specific reporting of the current 2008 Bond issue proceeds and will continue to receive a detailed accounting of all bond monies on a monthly basis. All documentation is available for public view on the District Web site. Communication between administration and Board is now open and transparent. The Board is now apprised of needed adjustments as they occur and only projects authorized by the Board will be funded with bond proceeds.*
- B. *General ledger accounts were previously in place for appropriately coding expenditures and staff has a clear understanding of appropriate coding. The Board has been advised by administration that directives for inappropriate coding were made due to the absence of bond funds in the audited time frame. With accurate and transparent monthly reporting to the Board, appropriate codes are used to track bond expenditures.*
- C. *Since October 2008, the Audit and Finance Committee and Board receive budget amendments on a monthly basis. Comprehensive financial reports are now provided to*

the Board on a monthly basis and allow for more transparent communication. These reports are available for public view on the District's Web site.

3.

Compensation and Travel Allowances

The employment contracts/addendums of two former administrators did not appear reasonable and were not supported by documentation of time worked. In addition, consulting services were not adequately defined and Non-Certified Employment Agreements ("550-Retiree" contracts) were not approved by the School Board. Travel allowances were not included in employee contracts, were not always reported on employees W-2 forms, and appear unreasonable in some instances.

- A. Employment contracts with former Superintendent Taveau and former Director of Communications Dunn did not appear reasonable. An addendum, dated October 17, 2005, to former Superintendent Taveau's contract required him to work no more than 550 hours as Superintendent during fiscal year 2007 and act as a consultant to the new Superintendent from July 1, 2007 to December 31, 2007. An addendum to former Director of Communications Dunn's contract required a similar 550 hour provision from January 1, 2007 to July 31, 2007. He was then contracted as a non-certified employee to work 550 hours from August 1, 2007 to May 29, 2008.

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

During our review of these contracts, we noted the following concerns:

- 1) While "550-Retiree" employees, these individuals received compensation equaling 50 percent of their normal salary while they were supposed to be working less than 50 percent of the normal hours. During this time, had they been paid an hourly rate it would have almost doubled what they were earning per hour under their previous contracts. For example, for fiscal year 2007, former Superintendent Taveau earned approximately \$86,500 for working 550 hours, or \$157 per hour. While full-time this individual was paid a rate of approximately \$83 per hour.

In addition, former Superintendent Taveau was also provided benefits similar to a full-time employee, including:

- An automobile for use in connection with district business.
- Paid dues to one local service club, paid expenses for attending local service and civic functions, paid expenses for various associations, and paid expenses at national, state, and local conferences.
- Medical and dental insurance coverage.

While the "550-Retiree" contracts are specifically allowed by Section 169.560, RSMo, and may fill a need for a part-time employee, the district is not required to pay 50 percent of the normal salary for only 550 hours of work, nor continue to provide benefits similar to those received by a full-time employee. In light of the district's financial condition, the reasonableness of these contracts should be reviewed.

- 2) Neither of the "550-Retiree" employees submitted documentation supporting the number of hours worked. In general, exempt employees of the district are not required to prepare time sheets. However, because the "550-Retiree" employees were employed in accordance with state law and capped at 550 hours, it is necessary to document the hours worked and provide the district with a method to monitor the hours worked, regardless of position. Each "550-Retiree" employee or consultant should be required to prepare and sign appropriate documentation to be reviewed and approved by their supervisor or the board to ensure compliance with state law.
- 3) The consulting provision in former Superintendent Taveau's amended contract was not adequately defined. The amended contract included no provisions to ensure the consulting services were actually provided and measurable. The contract required former Superintendent Taveau to serve as a consultant to the then acting or new superintendent from July 1, 2007 through December 31, 2007; however, he was not required to report the extent of his consulting activities to anyone.

Addendums to employee contracts should be reviewed and approved by the district's legal counsel, requiring provisions be included to measure the services to be provided and ensure the contract has been fulfilled (i.e. supporting documentation of the services provided).

- 4) Former Director of Communications Dunn's Non-Certified Employment Agreement was not approved by the School Board. Prior to fiscal year 2009, Non-Certified Employment Agreements or "550-Retiree" contracts were not presented to the School Board for approval. These contracts were approved by the Assistant Superintendent of Human Resources. Addendums to Non-Certified Employment Agreements should be approved by the board as required by district policy.

- B. Travel allowances paid to executives/directors, principals, and assistant principals are not included in their contracts or approved by the School Board. In addition, travel allowances, which are taxable compensation if not supported by actual mileage, are not reported on the principals' and assistant principals' W-2 forms. Finally, the district has no documentation to show travel allowance amounts are reasonable compared to actual expenses incurred.

The district pays a travel allowance to various employees who use their personal vehicles to conduct official business within the school district. When employees use their personal vehicles to travel outside the district, they receive a separate mileage reimbursement. During our review of travel allowances we noted the following concerns:

- 1) Travel allowances are not included in employee contracts or approved by the School Board as additional compensation. Beginning in 2005, travel allowances were awarded to executives/directors (\$200-400 per month), principals (\$800 per year), and assistant principals (\$500 per year). These allowances were approved by the Superintendent.

In order to fully disclose the total compensation of each administrator, travel allowances provided should be included in annual employment contracts and approved by the board.

- 2) Travel allowances paid to principals and assistant principals are not included on W-2 forms. The district does not require the principals and assistant principals to report their actual mileage. Internal Revenue Service (IRS) regulations require travel and expense reimbursements to be reported on the recipient's W-2 form unless the recipient is required to report related expenses to their employer.
- 3) Travel allowances paid to various employees during fiscal year 2008 appear unreasonable. Using an average district mileage reimbursement rate of 50 cents per mile, the monthly allowance paid to executives/directors represents approximately 400 to 800 miles per month. Considering the district only covers approximately 85 square miles and the travel allowance is to cover in-district travel, it seems unreasonable that some executives/directors are traveling 800 miles per month conducting school district business. The district should review the reasonableness of the travel allowances paid and set the allowances to reasonably reflect the actual expenses incurred by the employees.

WE RECOMMEND the School Board:

- A. Ensure "550-Retiree" contracts, including proposed salaries, are reviewed for reasonableness and adequacy. In addition, the School Board should require

supporting documentation of time worked or consulting services provided to support compensation and approve all contracts.

- B. Ensure travel allowances are included in employee contracts and reported on W-2 forms. In addition, the School Board should review travel 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:

- A. *All 550-Retiree Working agreements have been reviewed by administration and monthly documentation for time worked is being submitted to the appropriate department. Additionally, the Board has directed administration to ensure that 550-Retiree employments are necessary and receive an appropriate hourly rate of pay.*
- B. *Effective December 2008, all travel allowances were paid as taxable income and included on employee W-2 forms. The Board will approve travel allowances for administrators as a scheduled rate of pay for future consideration. Measures will also be taken to ensure that all regular compensation is identified in the employee contract.*

4. Bidding and Contracts

Several purchases were not bid or documentation of bidding was not retained, selection processes for professional services were not always adequate, bond sales were negotiated instead of sold competitively, and the district does not have a formal written contract with the Liberty School District Foundation.

- A. Several purchases were not competitively bid or competitive requests for proposals were not obtained. The district's bidding policy only requires competitive bidding for construction of facilities that are projected to exceed \$15,000, insurance contracts, and bank depository services, as required by state law. In addition, the Technology Department has an informal policy of requesting three quotes for purchases that are expected to exceed \$12,500. The district's current bidding procedures could be made more effective by formally adopting a more comprehensive policy. The following are examples of purchases during the year ended June 30, 2008, for which the district did not follow a competitive bid process:

<u>Item</u>	<u>Cost</u>
12 vehicles	\$175,000
Furniture	100,176
Fencing	80,895
Plumbing	75,415

Carpet	75,105
Student activity insurance	59,857
Orchestra instruments	53,895
Contract work – administrative center	53,383
Mulch and playground material	22,836
Contract work – modular classrooms	15,682
Walking trail	15,000
Audio/visual equipment	13,105
Janitorial supplies	11,352
Soft drinks	9,228
Utility vehicle	8,000

For many of the examples noted, the district indicated it obtained a proposal from one vendor, many times a local vendor, and no other vendors were considered. In some instances, additional quotes were obtained but problems were noted. For example, the district obtained quotes from two vendors for carpet, but this purchase was not advertised, and quotes were obtained from three vendors for the utility vehicle, but this information was not retained. The purchase of orchestra instruments was identified as a sole source procurement, but this information was not documented.

Competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the district's business.

A more comprehensive policy would require bidding or competitive requests for proposals and would identify specific procedures required for all types of disbursements. Bids could be handled by telephone quotation, sealed bids, or advertised sealed bids. Different approaches may be appropriate depending on the dollar amount of the purchase. Written documentation of bids also provides evidence the board has complied with its procurement policy. Bid documentation should include a list of vendors contacted, a copy of the bid specifications, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors.

- B. The district does not periodically solicit engineering/architectural and surveying/planning services for its construction projects, as required by district policy and state law.

Per district officials, the services of the same two firms have been used since at least 1999, and a Request for Proposal (RFP) for these services has not been issued since then. Payments to these firms totaled approximately \$1.74 million during the year ended June 30, 2008. In addition, payments to these firms have totaled approximately \$6.68 million since 1999. These firms have worked on all district capital improvement projects during this time. District officials indicated they use these firms because of past performance and a good working

relationship. However, rates charged to the district for the services provided by one of these firms have increased as much as 89 percent over the last 9 years.

District policy FEB states that when considering the need for architectural, engineering, and/or land surveying services, the School Board or designee shall prepare a written description of the services desired by the district. Interested firms may be requested to submit statements of their qualifications and performance data with respect to the above criteria and also to submit a fee schedule. The School Board or designee shall analyze the data received and list the top three qualified firms. When hiring such a firm the selection shall be made on the basis of demonstrated competence and qualifications for the types of services specified by the district at fair and reasonable prices. Sections 8.285 to 8.291, RSMo, provide that when obtaining professional services at least three highly qualified firms should be considered. The firms should be evaluated based on specified criteria and qualifications for the type of service required. The best proposal should be selected based on experience, type of service to be provided, and any other relevant information.

The district should periodically evaluate and re-consider qualified firms in accordance with its policy and state law to ensure these services continue to be received at fair and reasonable prices.

- C. The district has not conducted, or periodically re-conducted, a selection process for other professional services, and the same vendors have been used for several years. The following are examples of purchases during the year ended June 30, 2008, for which the district did not follow a competitive bid process or request competitive proposals:

<u>Service</u>	<u>Cost</u>
Insurance/Web site administration	\$73,961
Monthly pest control	49,275
Tree service	12,868
Scanning	12,670

In addition, prior to fiscal year 2008, the district used the services of the same audit firm since at least 1999. The total payments to this firm and the other firms providing the services listed above since the point in time they became the preferred vendors of the district totaled approximately \$1.63 million.

Selection processes are necessary to ensure the district is receiving the best services and rates. The process should include advertising and soliciting proposals and evaluating these proposals for technical experience, capacity and capability of performing the work, past record of performance, and the firm's proximity to and familiarity with the school district. Information concerning the selection process should be documented and retained.

- D. In fiscal year 2008, the school district issued \$15.2 million in Missouri School Boards' Association Insured Lease Participation Certificates and \$58 million in general obligation school building bonds. The district sold these certificates and bonds through a negotiated sale instead of a competitive sale. In addition, since at least 1997, the School Board has been using the same bond underwriter who also acts in a dual capacity as financial advisor. Having the same provider serve in the dual capacity of financial advisor and underwriter for a bond issue may create a conflict of interest. Additionally, the lack of independent financial advice could result in the School Board not always being adequately informed of bond issuance options or being able to adequately evaluate bond proposals. Further, 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 the taxpayers.

Historically, negotiated bond sales result in increased interest cost. While Missouri law does not require competitive bond sales or competition in selecting bond advisors, the historically lower interest costs on competitive sales suggest such sales to be in the best interest of the school district.

- E. The district provides office space in the District Administration Center (DAC), as well as computers and phones, to the Liberty School District Foundation (Foundation) free of charge. The district does not have a written agreement with the Foundation for the use of district facilities and equipment.

The mission of the Foundation is to provide an organization outside the public school system which generates and guides alternative resources for new and expanded educational opportunities for the benefit of students, teachers, employees, and residents of the district.

In addition, the Foundation is not required to maintain insurance coverage. As a result, the district may be liable for any loss or damage of assets or facilities. To adequately safeguard district assets, the School Board should enter into a written agreement with the Foundation, including requiring adequate insurance coverage be maintained. In addition, Section 432.070, RSMo, requires all contracts to be in writing.

WE RECOMMEND the School Board:

- A. Adopt a more comprehensive bid policy which establishes bidding guidelines for other types of disbursements. Such a bid policy should include criteria on how bids are to be solicited and when formal advertising should be used. Documentation of bids received and the bid process should be retained. If sole source procurement is necessary, the district should retain documentation of the circumstances.
- B. Periodically evaluate and reconsider engineering/architectural services provided for the district.

- C. Periodically solicit proposals for professional services.
- D. Pursue open competition in any future bond sales.
- E. Ensure formal written agreements are prepared for use of district facilities and equipment.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *At the Board's direction, the Audit and Finance Committee and administration developed new Purchasing and Distribution Procedures. The procedures were communicated District-wide February 2009 and include specific bid and quote guidelines for purchases of supplies and services as well as instructions for sole source procurement. The procedures are available to the public on the District's Web site under Financial Accountability, Improved Policies and Procedures at <http://www.liberty.k12.mo.us/about/business-operations/financial-accountability> and include the following directives:*
 - 1. *Purchases under \$2,000 do not require bids or quotes; however, a building principal or department Budget Agent (Budget Agent) may elect to do so to obtain the best price. Bids and quotes may be processed by the Budget Agent or the Director of Purchasing and kept on file in the Purchasing Department in accordance with the General Records Retention Schedule of the Secretary of the State of Missouri.*
 - 2. *Purchases \$2,000 through \$15,000 require bids or quotes. Bids or quotes may be obtained by the Budget Agent or the Director of Purchasing and kept on file in the Purchasing Department in accordance with the General Records Retention Schedule of the Secretary of the State of Missouri. Under no circumstance may purchases or projects be divided in an attempt to circumvent the dollar value limits requiring bids.*
 - 3. *The District attempts to participate in cooperative purchasing programs to the extent that the items purchased meet the District's specifications and needs. The bids taken by these cooperative organizations shall satisfy the District's bidding requirements for the period of time the cooperative bid is accepted.*
 - 4. *Non-construction and non-renovation purchases of goods or services, where the purchase exceeds \$15,000, shall be bid. All bids will be publicly opened and will be retained in accordance with the General Records Retention Schedule of the Secretary of the State of Missouri. Under no circumstances may projects be divided in an attempt to circumvent the dollar value limits requiring bids.*
 - 5. *For construction or renovation of District facilities, where the purchase exceeds \$15,000, a request for sealed bids will be publicly advertised for two successive weeks in a newspaper of general circulation located in Clay County, Missouri. All bids will be publicly opened and will be retained in accordance with the General Records Retention Schedule of the Secretary of the State of Missouri. Under no circumstances may projects*

be divided in an attempt to circumvent the dollar value limits requiring bids. All legal notices shall be processed and retained in the Construction Management Department.

6. *Vendor contracts, exceeding \$15,000, shall be reviewed by legal counsel and approved by the Board. Contracts and agreements, \$15,000 or less shall be reviewed by legal counsel at the discretion of the Superintendent, Chief Financial Officer, or designee. The Chief Financial Officer will ensure that all contracts and agreements are appropriately reviewed and Board approved.*
- B. *The Board has advised administration to appropriately evaluate and bid all services including engineering/architectural services. The Request for Proposal will be implemented in September 2009.*
- C. *The Board has advised administration to appropriately evaluate and bid all professional services. A comprehensive list of professional services has been developed and implementation of individual Request for Proposals or Quotes will begin May 2009.*
- D. *The Board has advised administration to appropriately evaluate and bid open competition in any future bond sales.*
- E. *The Board has advised administration to ensure formal written agreements are prepared for use of District facilities and equipment. Specifically, the District is working with the Liberty School District Foundation to develop a usage agreement. The Liberty School District Foundation is a not-for-profit organization outside the public school system which generates and guides alternative resources for new and expanded educational opportunities for the benefit of students.*

5. Disbursements

Areas of concern noted during our review of district disbursements included the lack of a comprehensive district food and/or beverage purchase policy, lack of supporting documentation for some credit card disbursements, excessive purchasing card limits, the inclusion of state sales tax on several district invoices approved for payment, and the lack of a reconciliation of beverage purchases to sales at the DAC.

In February 2008, the School Board engaged Westbrook and Co., P.C., Certified Public Accountants (CPA), to perform an agreed upon procedures audit. One of the major areas of focus on the audit was expenditures, especially credit card charges made by, and reimbursements made to, various prior administrators. Therefore, to minimize duplication of effort, we focused on other disbursements not already reviewed by the CPA firm.

The CPA firm reported to the School Board in two phases. The phase one report was dated April 2, 2008. The phase two report was dated July 7, 2008. As a result of the CPA firm's efforts, the district moved away from traditional credit card accounts and

adopted a purchasing card program. By July 2008, a handbook had been developed, and the district had begun using the new cards. All the old credit card accounts were cancelled. Please refer to the CPA firm's reports for its comments, conclusions, and recommendations.

- A. The district has not established a separate account within its accounting system to easily track local food expenses; therefore, we were unable to gather information regarding the extent of such expenses. The district also does not have written policies indicating when food will be provided for meetings or imposing any limits on such purchases. During the year ended June 30, 2008, district credit cards were frequently used to purchase meals at local restaurants and the district often provided food for meetings involving district personnel.

In October 2007, one employee made 10 food purchases, totaling \$961, at local restaurants. During this same month, another employee made three purchases of food for staff meetings at a cost of \$611, and in December 2007 paid \$301 for an employee Christmas dinner. The purposes of the meals and those attending were not always documented. In addition, numerous disbursements were made to a local vendor for catered meals during the year ended June 30, 2008. The meals were for award ceremonies, department appreciation functions, training sessions, workshops, administrator or staff meetings, new teacher orientations, back-to-school meetings, and end-of-year gatherings.

The district should establish a separate account to track food purchases to better monitor such expenses. In addition, the district should develop a comprehensive policy covering food purchases to ensure public funds are spent wisely. Food expenses paid by the district should be reasonable and necessary for conducting district business and limits should be established for all such purchases. Attendance lists and business purposes should also be documented for all food purchases.

- B. Supporting documentation was not retained for some credit card purchases. In addition, some payment documentation was not itemized. Charges totaled \$373,708 on 24 credit cards authorized by the district during the year ended June 30, 2008. We haphazardly selected three district employees and reviewed their credit card activity for October 2007, as well as other unusual activity in fiscal year 2008. We noted receipts were missing for 28 purchases totaling \$3,872. One employee was missing 13 of 61 receipts (21 percent) for October 2007 alone. These charges were for hotels, parking, transportation, food for staff, and expenses at various restaurants and other businesses. In addition, another restaurant receipt for \$35 was not itemized.

Without itemized supporting documentation, the district cannot determine whether credit card purchases are reasonable and necessary uses of public funds.

- C. Purchasing card transaction limits for some individuals may be excessive. The district currently has 63 purchasing cards assigned to various personnel throughout the district with individual transaction limits ranging from \$100 to \$3,000 and monthly cycle limits of \$500 to \$10,000. However, two employees reviewed had monthly cycle limits of \$2,500 and \$5,000, respectively, but made less than \$2,500 in credit card purchases each during the entire year ended June 30, 2008.

To further strengthen controls over purchasing cards, the district should compare the actual purchasing card activity of each employee versus the individual transaction and monthly cycle limits currently established. Adjustments to the limits should be made accordingly.

- D. Several invoices approved for payment by the district included state sales tax, including payments to its wireless carrier. In October 2008, the district's wireless account was credited a total of \$12,990 for sales taxes paid over a 2 year period. In addition, we noted 22 credit card transactions, totaling \$1,855, which included state sales tax. In these instances, the district did not provide proof of its tax exempt status to vendors and invoices were not closely reviewed before the payment was made. To avoid paying unnecessary costs, the district should review invoices and ensure sales tax is not charged on exempt purchases.
- E. Refrigerated beverage sales at the DAC are not reconciled to purchases. In addition, as with food, the district does not have a written policy indicating when beverages will be provided for meetings or imposing any limits on such purchases.

The district operates three refrigerated beverage cases at the DAC. Staff are allowed to purchase these products on the honor system. We attempted to perform a reconciliation of monies collected to the number of products sold; however, the total receipts generated from sales was only \$1,446 compared to \$9,228 in purchases. Some of the difference is related to the policy of allowing beverages free of charge to participants at various district meetings.

Vending machines are used at other district facilities. Per district staff, the administration has discussed replacing the refrigerated cases with vending machines and has recently raised the price for these beverages.

In light of the district's financial condition, the district should reconsider its policy of allowing courtesy beverages to participants of various district meetings. If the district continues to allow this practice, controls need to be put in place to ensure the district is not losing money. Documentation should be maintained of beverage usage to facilitate a reconciliation of purchases to sales and/or courtesy

beverages. In addition, a comprehensive food and beverage policy should be adopted.

- F. Adequate documentation was not provided to support the reimbursement of some expenses related to the retirement party for former Superintendent Taveau. Donations were solicited from local businesses to cover some costs of the party and invitations were sent to various district officials requesting \$25 to cover the cost of their meal. While an invoice was available to support the cost of the meals paid to the local county club where the party was held, a reimbursement made to former Superintendent Taveau's wife, totaling \$2,471, was not supported by an itemized invoice. District officials indicated this amount was the approximate cost of the alcohol served to guests at the retirement party.

Without itemized supporting documentation, the district cannot determine whether all expenses were reasonable and necessary.

WE RECOMMEND the School Board:

- A. Develop a comprehensive policy regarding district-provided food purchases and properly account for this type of expense. This policy should establish specific guidelines regarding proper and allowable disbursements, along with documentation requirements including the business purpose and individuals in attendance.
- B. Require detailed supporting documentation be submitted and retained for all disbursements.
- C. Evaluate and adjust employee purchasing card limits as deemed appropriate.
- D. Ensure state sales tax is not included on invoices approved for payment.
- E. Ensure a reconciliation of beverage sales to purchases is performed at the DAC. In addition, the policy of allowing courtesy beverages at district meetings should be discontinued or additional controls should be put in place regarding beverage usage, including a written beverage policy.
- F. Consider pursuing reimbursement of the unsupported retirement party expenses.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *Comprehensive policies for travel and purchasing have been implemented district-wide and include specific guidelines regarding proper and allowable expenditures. Itemized receipts and other appropriate documentation are required. Additionally, separate codes are being established for tracking purposes. Purchases by employees for personal use*

are prohibited. Accounts payable disbursements, with certain Board approved exceptions, are released only upon Board approval.

- B. Itemized receipts are required for all purchases. All previous District credit cards have been replaced with purchasing cards. All employees provided District purchasing cards are required to attend specific training on appropriate purchase use, recordkeeping requirements, and statement reconciliation. Employees are required to sign documentation regarding responsibilities for being entrusted with the card and the rules of use. In the event improper usage of the purchasing card should occur, the District is authorized to withhold funds from the employee's paycheck. Additionally, the Purchasing Card Coordinator shall provide written notification to the employee and the employee's supervisor. The employee will be required to attend additional training. Any subsequent improper use will result in revocation of the card in addition to any legal or disciplinary action deemed necessary. All documentation for direct reimbursements as well as documentation for purchasing card purchases for the Superintendent and Chief Financial Officer is now signed by the Board of Education President. Additionally, travel procedures have been revised requiring original, itemized receipts for all reimbursements with the exception of mileage and per diem meals. All participants must be identified when costs for multiple employees are reimbursed to a single employee.*
- C. Purchasing card limits are reviewed quarterly. To ensure continued review, this requirement has been added to the perpetual calendar of reviews by the Audit and Finance Committee.*
- D. Accounts Payable staff is reviewing all invoicing to ensure no state sales tax is paid.*
- E. Vending machines were placed in operation at the District Administration Center on January 19, 2009. Courtesy beverages have been reduced to providing bottled water and coffee for a limited number of meetings.*
- F. The Board will consider pursuing reimbursement of the unsupported retirement party expenses.*

6. District Vehicle and Fuel Procedures
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The district does not maintain mileage records for each vehicle used for district business and has not analyzed vehicle use to ensure all district-owned vehicles are used efficiently (vehicles other than buses). In addition, the amount of fuel pumped from the district's metered tanks is not reconciled to gallons purchased.

- A. Controls over vehicle usage need improvement.
 - 1) Mileage records that include the purpose and destination of each trip and the daily beginning and ending odometer readings are not maintained to document the use of district-owned vehicles. Usage logs are maintained

for DAC vans, but odometer readings are not recorded. In addition, the Transportation Department requests the mileage of each vehicle on a monthly basis to track and schedule preventative maintenance, but no other detail regarding daily use is required.

- 2) The district has not analyzed vehicle use to ensure all district-owned vehicles are used efficiently. The district provided us with maintenance logs for its 44 vehicles. Based on the mileage information on these logs, we estimated several vehicles were driven less than 5,000 miles during the year. Low mileage may indicate a district has too many vehicles or is not efficiently utilizing vehicles.

Complete and detailed mileage records for all district-owned vehicles should be maintained, and a review of these records should be periodically performed to ensure all district-owned vehicles are used efficiently and for district business.

- B. A log is not maintained to record the amount of fuel pumped from the district's gasoline tank. All employees with access to a district-owned vehicle have a key to unlock this pump. In addition, while logs are maintained to record the amount of diesel pumped from the district's metered tank, the logs are not reconciled on a periodic basis to the gallons purchased.

The district purchases gasoline and diesel in bulk and stores the fuel in district-owned tanks located across from the DAC and at the support services facility, respectively. The district purchased more than \$58,000 in gasoline and \$470,000 in diesel fuel during the year ended June 30, 2008.

As of June 30, 2008, the district did not maintain a fuel log at the gasoline bulk tank. However, the district implemented a log at the pump to record all purchases during fiscal year 2009.

To ensure gasoline and diesel fuel disbursements are reasonable and properly accounted for, the district should maintain fuel logs, reconcile fuel purchased to fuel pumped on a periodic basis, and investigate significant differences. Without proper controls, the district cannot adequately monitor for theft or misappropriation.

WE RECOMMEND the School Board:

- A. Require complete and detailed mileage records be maintained for all district-owned vehicles and periodically analyze vehicle use to ensure district-owned vehicles are used efficiently and appropriately.
- B. Continue to strengthen controls in place to adequately safeguard the gasoline tank. In addition, periodic reconciliations should be performed of the fuel purchased to the amount pumped.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *Practices used at the Transportation Department have been expanded to provide adequate controls for the Grounds Department tank. A process for compiling complete and detailed mileage was provided to the school operations directors and the implementation for recordkeeping is in process. Staff is required to log data related to vehicle and purpose for use. A reconciliation process ensures accounting for all fuel used.*
- B. *Controls were implemented in February 2009 to safeguard the access to the fuel tank and reconciliation procedures are being performed. Specifically, the pump is now secured by a locked cabinet and the key is secure as well.*

7.

District Transportation

In light of the district's current financial condition, the district recently performed a cost analysis of the district owned and operated student Transportation Department in an attempt to identify potential cost savings. However, the district has not performed a similar analysis to determine the potential cost savings of contracting for student transportation. During school year 2007-2008, the district spent approximately \$4 million to transport students.

The district currently operates a three-tier system in which the district has three distinct schedules for the various schools. The cost analysis of the Transportation Department analyzed the potential cost reduction if the district changed to a four-tier system in which schools would have four distinct schedules, or bell times (i.e., 7:15 a.m. - 2:25 p.m., 7:50 a.m. - 3:00 p.m., 8:25 a.m. - 3:25 p.m., and 9:15 a.m. - 4:15 p.m.). In addition, the district currently has a one mile walk zone and provides free transportation to students living at least one mile from a school (students living within one mile of a school are not provided with free transportation). Per Section 167.231 (1), RSMo, the district is only required to provide free transportation to students living more than 3.5 miles from school. Therefore, the Transportation Department's review analyzed the potential cost reduction if the district increased the walk-zone up to 2.5 miles. Based on this preliminary analysis, substantial cost savings could be realized if the district implemented a four-tier system and/or increased the walk-zone.

In performing the cost analysis, the Transportation Department identified costs could be cut as a result of staffing requirements, number of buses, fuel and maintenance costs, etc. The significance of the cost reductions is determined by the significance in the change of the policies and procedures in place such as the number of tiers and walk-zone distance. Below is a schedule of potential cost savings:

Number of Tiers	Walk-Zone Distance	Potential Cost Reduction
4	1.0	\$ 350,000 – 525,000
4	1.5	630,000 – 980,000
4	2.0	770,000 – 1,120,000
4	2.5	910,000 – 1,260,000

The above potential cost reduction figures are estimates based on data available to the Transportation Department as of October 24, 2008.

Although district officials have performed a cost analysis of changing policies and procedures within the Transportation Department, they have not performed a cost analysis of owning versus contracting transportation services. Although we have not found evidence to support a significant cost reduction of owning or contracting, in light of the district's current financial condition all options should be considered in an attempt to reduce transportation costs.

WE RECOMMEND the School Board continue to review policies and procedures in place to determine areas of potential costs savings. In addition, a cost analysis of owning versus contracting transportation services should be performed. Based on these reviews, the School Board should consider appropriate adjustments to reduce costs within the Transportation Department.

AUDITEE'S RESPONSE

The School Board provided the following written response:

The Board approved changes to school attendance boundaries at the February 17, 2009 Board meeting. Additionally, the Board approved new school start and end times at the March 16, 2009 meeting which will improve efficiencies and reduce costs by implementing a five-tier transportation system as opposed to the three-tier system currently in place. These changes will result in significant savings for the District.

8.	Wireless Telecommunication Devices
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The district does not adequately monitor the use or evaluate the distribution of wireless telecommunication devices, including cellular phones, data cards, pagers, and tracking devices. During the year ended June 30, 2008, the district owned approximately 590 wireless telecommunication devices. The district was charged approximately \$55 per phone, \$57 per data card, \$7 per pager, and \$30 per tracking device. For the cellular phones, all employees shared pooled plans each month. The district paid approximately \$295,000 during the year ended June 30, 2008, for wireless telecommunication devices.

A. The district does not have a policy prohibiting nor does it adequately monitor or track personal use of wireless telecommunication devices. In addition, the district

does not have a policy regarding extra charges, including text messaging, data transfers, and directory assistance calls.

During a review of the May 2008 wireless telecommunication device charges, we noted overage charges of \$336 for directory assistance calls and \$994 for text messaging. A Technology Department employee indicated when overage charges are incurred an email will be sent to those users indicating the reason for the overage and reminding them of their planned minutes/usage. However, the district does not attempt to collect reimbursement for any overage charges.

Although reviews of overage charges are documented, the devices are not monitored or tracked for personal use. In addition, the district does not analyze the plans based on business use to determine if rate changes could be made to reduce costs.

A formal written policy should be developed regarding the proper use of wireless communications devices. Without procedures to adequately review detailed phone bills, the district has less assurance disbursements for wireless telecommunication services are reasonable and necessary, and the possibility of not detecting improper use is increased.

- B. The district does not follow IRS regulations regarding personal use of wireless telecommunication devices. Wireless telecommunication devices are considered listed items per IRS guidelines (Internal Revenue Code (IRC) Section 280F (d)(4)(A)(v)). Therefore, any personal use of these devices should be reported as income on the employee's W-2 form. Further, the IRS requires usage be classified as business or personal on an itemized statement for all devices (IRC Section 274 (d)). This information should be submitted to the employer to support the exclusion of the usage from the employee's wages.

Although the district maintains itemized records of wireless telecommunication charges, the district does not require employees to indicate the purpose of the usage as either business or personal. As a result, the entire cost should have been reported as wages for all employees for their respective device.

- C. The district has not evaluated the cost and distribution of wireless telecommunication devices. The district provides approximately 400 cellular phones and 27 data cards (Internet access for laptops) to various district employees.

The district does not have a formal policy indicating to whom services are provided. Without proper controls in place to evaluate the cost and distribution of wireless telecommunication devices the district may incur costs that are not necessary. For example, as of May 2008, the district has a cellular phone plan which includes 91,600 pooled anytime minutes. However, based on our review of

activity for 5 months, the district only utilized 64 to 72 percent of the pooled minutes each month.

In addition, our review of May 2008 wireless telecommunication charges noted the district issued 27 data cards to various district employees including all board members, superintendents, directors, and security personnel. The total cost of these data cards for May 2008 was approximately \$1,550. The estimated annual cost of data cards is in excess of \$18,000. All of these employees, with the exception of board members, have local access to the Internet using the district's Internet provider. The district could potentially reduce costs by limiting the number of data cards.

While wireless telecommunication devices can help increase employee productivity, they are also costly. Effective procedures should be implemented by the Purchasing Division to properly monitor wireless telecommunication device usage. Additionally, the district should periodically evaluate the cost and distribution of wireless telecommunication devices to employees to ensure all devices are necessary or of benefit to the district.

WE RECOMMEND the School Board:

- A. Establish a formal policy regarding the proper use of wireless telecommunication devices. The district should also consider requiring reimbursement for any overage charges resulting from personal use. In addition, the district should ensure procedures are in place to allow the Purchasing Division to perform and document routine and periodic reviews to analyze wireless telecommunication devices based on business use.
- B. Include the pro rata share of personal usage of wireless telecommunication devices as wages on employee W-2 forms.
- C. Performs an assessment of wireless technology devices for distribution and usage on a periodic basis.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The Board has directed administration to implement a formal policy regarding the proper use of wireless telecommunication devices to include a requirement for reimbursement for any overage charges resulting from personal use. Procedures will be developed for the performance of periodic reviews to analyze wireless telecommunication devices based on business usage with an anticipated completion date of May 2009.*
- B. *A personal usage fee for wireless telecommunication devices will be considered.*

- C. *As part of the Tier I Budget Reductions approved January 2009, the Board directed administration to reduce the number of telecommunication devices. As of March 2009, approximately 300 devices have been eliminated at a cost savings of over \$140,000 per year. Parameters have been developed for authorizing new telecommunication devices.*

9. Safe Schools

The State Auditor's office issued report No. 2008-52, *Safe Schools Initiatives*, in August 2008. During the Safe Schools Initiative audit, it was noted the district had significant weaknesses including incomplete discipline policies, insufficient violence prevention programs, insufficient anti-bullying policies, insufficient emergency management plans and drills, and inconsistencies between student handbooks and board policies. Subsequently, we reviewed the concerns noted during the Safe Schools Initiatives audit and noted the district is currently addressing the weaknesses. However, there are some outstanding items, such as inconsistencies between student handbooks and board policies, which have not been corrected.

In addition, the district had a safety review performed in August 2006 by the Missouri Center for Safe Schools (MCSS), which included concerns regarding specific items such as fire alarms, playground equipment, etc. We were unable to determine if the concerns addressed by the MCSS have been corrected. The district does not have documentation of follow-up work or a corrective action plan addressing the weaknesses identified by MCSS.

WE RECOMMEND the School Board continue to follow-up on the weaknesses identified and take appropriate actions to resolve any outstanding concerns.

AUDITEE'S RESPONSE

The School Board provided the following written response:

The Board has directed administration to continue follow-up on weaknesses identified through the Safe Schools Initiatives August 2006 review and provide a report in the coming months regarding necessary improvements to student handbooks, board policies and other required changes.

10. Real Estate Transactions

Several real estate contracts were entered into with the same broker without board approval, and the services of a real estate broker were solicited without a formal selection process. In addition, the district purchased three properties without properly obtaining appraisals.

- A. The district entered into several real estate contracts with the same broker without board approval. In addition, it appears other real estate negotiations were initially conducted with little or no knowledge of the board.

The following exclusive contracts were executed without board approval:

- June 7, 2005 – Purchase of BJT for \$4.25 million (the building currently houses the Academy and the technology center, as well as Northwest Missouri State University (NWMS), which occupies the third and fourth floors).
- July 31, 2005 - Exclusive Buyer Agency Contract for July 2005 through July 2006.
- August 14, 2006 - Exclusive Buyer Agency Contract for August 2006 through August 2007.

Other real estate purchase and/or sale negotiations also appear to have been conducted with little knowledge of the board.

- In April 2006, a real estate contract was entered into without board approval for the purchase of a small piece of land to be used for a parking lot at the Lewis and Clark Elementary School (LCE). The cost of this property was \$200,000. The purchase was not approved by the board until July 24, 2006, the day prior to closing.
- In July 2006, negotiations began with a local businessman to sell approximately 12 acres of unused district property near the South Valley Middle School to the businessman to resolve a boundary issue. The board approved listing the property for sale in November 2006 and later approved the real estate contract in December 2006. The property sold for \$180,000.

In September 2006, the district also entered into a letter of agreement with NWMS for use of the building commonly referred to as BJT. The agreement provided that NWMS, in lieu of rental payments, would reimburse the district for the cost of renovating the third and fourth floors. This amount was not to exceed \$600,000 and reimbursement was to be spread over 5 years. This agreement was negotiated by former Assistant Superintendent Wright and signed by former Superintendent Taveau. This agreement was also not approved by the board.

Board policy DJF explicitly states no contract will be made without an affirmative vote from a majority of the whole board. The policy does not authorize anyone other than the board to approve contracts. The board should be more involved in significant real estate transactions.

- B. A RFP was not issued soliciting the real estate services of the firm given the contracts noted in part A above. As a result of district real estate purchases or sales between August 2005 and May 2008, this firm was paid approximately \$493,000 in real estate commissions.

For example, this firm received commissions on the following real estate transactions:

- \$120,000 on 16.61 acres of land located at 10801 North Eastern Avenue (Kellybrook Elementary) that was donated to the district in December 2007. Despite the land being donated by a local developer, the commission was paid by the district as part of the closing costs. In addition, the appraisal of the property which dictated the commission was obtained by the developer not the district.
- \$144,188 on the district's purchase of the UAW-Ford Family Service and Learning Center in August 2007. Approximately half the commission was paid directly by the district (without knowledge of the board as the payment was indirectly approved as a consent agenda item).
- \$12,000 on the district's purchase of the land for the LCE parking lot noted above in part A. The commission was paid by the seller, not the district.

Procurement and selection processes are necessary to ensure the district is receiving the best services and rates. The process should include soliciting proposals and evaluating these proposals for technical experience, capacity and capability of performing the work, past record of performance, and the firm's proximity to and familiarity with the school district.

- C. The district did not obtain appraisals for two properties purchased. As noted above in part A, in July 2006, the district purchased a small piece of land to be used for a parking lot at the LCE for \$200,000. The district purchased another small piece of land in December 2007 for \$20,000 which would allow district buses another access to the high school and alleviate some traffic problems. Neither of these properties was appraised prior to purchase. District officials indicated these purchases were negotiated with the respective seller.

Without an independent appraisal of property purchased, the district has less assurance the price paid is reasonable and represents the fair value of the property. To provide assurance a reasonable price is paid for land and buildings, the board should obtain appraisals prior to purchase for all potential sites under serious consideration.

WE RECOMMEND the School Board:

- A. Ensure all real estate contracts are approved by the majority of the board and included in board meeting minutes to document compliance with board policy.
- B. Periodically request proposals for real estate broker services.
- C. Obtain appraisals prior to purchase for any sites under serious consideration for purchase.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The Board and administration agree that all real estate contracts must be approved by the Board and included in board meeting minutes to document compliance with board policy. All future real estate contracts will be processed as recommended.*
- B. *As with all purchases and services, requests for proposals for services will be obtained to ensure open competition.*
- C. *Appraisals will be obtained for real estate under serious consideration for purchase prior to entering into an agreement to purchase or receive donated property.*

11.

Flintlock Flyover Project

District property taxes were committed to help fund a proposed road construction project (i.e., Flintlock Flyover Project) without board approval. In addition, traffic studies performed do not appear to justify this commitment.

The proposed Flintlock Flyover Project (project) is located between the intersection of 76th Street across Interstate 35 and connecting to the north-south alignment of Liberty Drive. Preliminary traffic impact assessments of the proposed residential development (Whitehall Station), middle school, and junior high school were completed in December 2000 and January 2001. In May 2001, a report was issued concerning the feasibility of the project. Conclusions drawn from this analysis indicated the project provided the district with an alternative route to serve its school population west of I-35 and the district would also have the advantage of more convenient travel.

In November 2003, former Superintendent Taveau sent a letter to the Tax Increment Financing (TIF) Commission of Kansas City requesting taxpayer dollars, in the form of payments in lieu of taxes (PILOTS), be used to reimburse certain costs related to the construction of the project. However, a written intergovernmental agreement between the district, city, and TIF Commission allowing PILOTS to be used to reimburse costs of

the project upon the district's written consent was not approved by the School Board until July 2004 and later signed by the School Board in December 2004.

Project costs were estimated at \$18.5 million, with \$14.8 million coming from federal and/or state funds and \$3.7 million from local matching funds. Provisions of the intergovernmental agreement included:

1. A commitment from the district totaling \$200,000, for one-third of the local portion of the engineering costs.
2. The district would be responsible for 50 percent of any excess engineering costs above \$600,000 (local match).
3. Upon substantial completion of the engineering services, the parties would enter into a separate agreement providing for payment of the remaining portion of the local match, or \$3.1 million in construction costs (the district's portion of these costs were estimated at \$2 million).

Subsequent to the agreement, the proposed project was delayed and former Superintendent Taveau retired. The district had not entered into the separate construction agreement noted above which would have further committed the district to funding a portion of the remaining local match (i.e., construction costs). Per district officials, former Superintendent Wright wanted to withdraw from the agreement. As a result, in November 2007, the district sent a letter to the TIF Commission withdrawing any further authorization previously granted to collect and expend PILOTS for construction of the project. District officials acknowledged a portion of the PILOTS currently held by the TIF Commission could be expended for the local engineering match; however, they requested all remaining funds (after engineering costs were paid) collected from PILOTS be declared surplus and paid to the district.

A termination and release agreement, dated October 2008, was agreed to by all parties. Provisions of this agreement include the following:

1. The maximum amount the city of Liberty will be entitled to receive from PILOTS in connection with the design of the project will be \$1,198,000, subject to certification of these costs by the TIF Commission when the engineering phase of the project is complete.
2. In excess of this amount, \$300,000 of PILOTS shall be dedicated to reimburse costs related to improvements contemplated by the TIF plan, as well as the TIF Commission's expenses related to the collection and disposition of such PILOTS.
3. Any surplus PILOTS remaining will then be paid to the district.

However, there is no provision in the agreement for the district to be paid interest accrued on the PILOTS while they were held by the TIF Commission. Per district officials, the remaining PILOTS to be returned to the district, not including interest, have been estimated at \$1.75 million.

Property taxes are restricted for educational purposes. As a result, a school district should not be in the business of building roads that promote economic development. In addition, the district should ensure the provisions of the termination and release agreement are fulfilled and should consider requesting a refund of all interest earned on the PILOTS withheld by the TIF Commission.

WE RECOMMEND the School Board refrain from committing future property tax receipts to build roads promoting economic development. In addition, the Board should ensure the engineering costs are certified as reimbursable, and surplus PILOTS, including accrued interest, due the district are returned in full.

AUDITEE'S RESPONSE

The School Board provided the following written response:

The Board will refrain from committing funds to build roads promoting economic development. The Liberty Public School District is no longer a participant in this project. The District has received reimbursement of the funds allocated for the Flintlock Flyover project in the amount of \$1,583,408.

12. Fast Forward Program

Contracts with Scientific Learning for implementation of the Fast Forward program were not approved by the School Board. In addition, no documented analysis was performed to support the district's decision to purchase this program.

The Fast Forward program offered by Scientific Learning is marketed as a reading intervention software package that strengthens brain processing and literacy skills to increase reading proficiency in students of all ages. In March 2006, former Superintendent Taveau signed the contract initially committing the district to the purchase of the program. The initial payment, totaling approximately \$299,000, was approved by the School Board as a consent agenda item; however, the contract was not approved. District officials indicated when questioned about this initial disbursement former Superintendent Taveau explained he was going to replace the Teacher and Assistant Practice (TAP) program, but information was not provided to them concerning subsequent contracts entered into and costs incurred to implement the Fast Forward program district-wide. Through September 2008, the district has invested approximately \$835,000 in this program and the equipment needed to run the software (not including salaries).

Board policy DJF explicitly states no contract will be made without an affirmative vote from a majority of the whole board. The policy does not authorize anyone other than the board to approve contracts.

In addition, bids or requests for proposals were not solicited for the purchase of this program. There is also no discussion or analysis concerning the replacement of the TAP program and the benefits of the Fast Forward program versus other similar reading programs. According to district officials, the decision to purchase the Fast Forward program was made solely by former Superintendent Taveau.

Policy DJC states that other purchases or contractual services (other than required by law to be bid) may be advertised and submitted for bid as directed by the board or when, in the opinion of the superintendent, the welfare of the district will be served. While a curriculum program of this sort may not be required to be bid, an evaluation process should have been undertaken and documented prior to the actual purchase of the Fast Forward program.

WE RECOMMEND the School Board approve all contracts as required by district policy. In addition, documented discussion and analysis should be performed prior to making curriculum changes requiring a significant financial investment.

AUDITEE'S RESPONSE

The School Board provided the following written response:

The Board now receives all contracts for approval and administrators understand that approving contracts is exclusively the authority of the Board as outlined in Board Policy DJF.

13.

Tennis Courts

During the process of acquiring tennis courts for use by its athletes, the district failed to analyze the cost-effectiveness of the proposed contract with the local country club versus building facilities in the city park, did not properly bid for the construction of the tennis courts, and allowed the contractor to start construction of the tennis courts without an executed contract.

Prior to the 2007-2008 school year, the district had a long-standing agreement with a local country club for use of tennis court facilities. During the 2006-2007 school year, the local country club built new facilities and planned to develop new agreement terms with the district. However, the district decided to contract with the City of Liberty to allow the district to build tennis courts in a city park and have priority usage.

- A. The district did not analyze the cost-effectiveness of the proposed contract with the local country club versus building facilities in the city park. During our review of the tennis court agreements, we estimated the total cost for use of the local country club's facility for 20 years at approximately \$370,000. These costs included a one-time fee of \$270,000 for the country club's construction of four outside courts (\$67,500 per court) and an estimated annual maintenance fee of

approximately \$5,000. This facility would have allowed the district to use eight outdoor courts and two indoor courts in case of inclement weather.

We estimated the total cost for construction and use of the tennis courts at the city park for the same 20 years at approximately \$566,000. These costs included district construction costs of approximately \$466,000 (approximately \$77,600 per court) and one-half the estimated annual maintenance costs of \$10,000 (the city pays for the other half of the annual maintenance costs). However, the projected cost does not include future costs associated with the agreement such as bleachers, restrooms, concession stands, and improvements to the parking lot. In addition, the city park facility only has six outdoor tennis courts and no indoor courts.

By contracting with the city, the district paid upfront costs of approximately \$466,000 for construction of tennis courts it does not own and may be required to commit future funds for additional improvements. Had the district entered into the agreement with the country club, it could have saved at least \$196,000, had access to more courts (including indoor courts), and paid less in upfront costs.

- B. The district did not properly bid for the construction of the tennis courts. The district advertised for RFPs with a closing date of October 17, 2007. This advertisement was posted on the district's Web site, but was not advertised in a newspaper. As a result of this request, the district received one proposal before the closing date and one proposal on November 19, 2007. The district awarded the contract to the lowest bidder, a North Kansas City firm, on December 17, 2007; however, the lowest bidder submitted its proposal after the closing date. Per district officials, former Superintendent Wright preferred to use local vendors for contract work if possible; however, no documentation was provided for our review explaining why the closing date had been extended or why the local vendor was the preferred contractor.

In January 2008, Assistant Superintendent of Support Services Brewer determined the tennis court project was not advertised in a newspaper. The district attempted to resolve this issue by advertising in the local newspaper in February 2008. Again, the district received two bids from the same firms and the lowest bidder, who happened to be the same firm awarded the original contract, was awarded the bid on March 13, 2008.

According to Section 177.086, RSMo, any school district authorizing the construction of facilities which may exceed an expenditure of \$15,000 shall publicly advertise, once a week for two consecutive weeks, in a newspaper of general circulation.

- C. Construction of the project was allowed to begin before a written agreement between the district and contractor was executed. We noted evidence that construction of the tennis courts began in December 2007. The contract states

work contemplated by the agreement shall start on or after April 1, 2008. However, the final contract was not fully executed until April 28, 2008. In addition, 2 days after the date the contract was signed, the contractor submitted two invoices totaling \$127,658, further evidence the work was started before there was a fully executed contract in place. These invoices were paid May 14, 2008.

Authorizing work to start before a contract is signed places unnecessary risk on the district. Liabilities could result if disputes arise related to a contract that has not been formally approved and signed.

WE RECOMMEND the School Board:

- A. More effectively analyze and document purchase/lease options before entering into written agreements. The district should enter into an agreement with the most cost-effective and efficient alternatives.
- B. Ensure all capital projects are bid in accordance with state law.
- C. Ensure a contract is fully executed before authorizing work to begin on a construction project.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The Board shall be provided analytical information for determining the greatest cost benefit alternative regarding purchase and lease options prior to entering into written agreements.*
- B. *All capital projects shall be bid in accordance with state statute (§ 177.086 RSMo). The new Purchasing and Distribution procedures provide clear instruction on the appropriate action required for purchase of goods and services, as well as construction and renovation projects.*
- C. *The Board shall have the sole authority to commit the district to any contract and such authority shall be obtained prior to the start of any construction project.*

14.

Cooperating School District of Greater Kansas City

The district did not provide proper monitoring of pass-through grant funds and did not enter into a contract with the Cooperating School Districts of Greater Kansas City (CSDGKC) for use of the grant funds. The district also did not enter into a timely agreement with the CSDGKC for membership to its organization.

The CSDGKC represents 24 school districts stretching from St. Joseph on the north to Harrisonville on the south. Its mission is to leverage its members' combined strengths to provide high quality and cost-effective services and resources to maximize learning for all students.

- A. The district did not properly monitor expenditure of Kauffman Foundation grant funds by the CSDGKC.

The district was designated as the official recipient for the Kauffman Foundation grant funds, which were to be passed through to the CSDGKC in August 2007. Per the terms of the grant agreement, the district was required to ensure no indirect expenses were incurred; no grant funds were used for lobbying or political activities; and budgetary line items were not exceeded by more than 10 percent without prior approval.

During our review of grant files, there was no indication the district did anything other than obtain a copy of and forward the CSDGKC's final report of grant disbursements to the Kauffman Foundation in April 2008. As a result, the district allowed the CSDGKC to expend \$100,000 without reviewing or monitoring disbursements related to the grant. District officials indicated former Superintendent Taveau applied for this grant on behalf of the CSDGKC shortly before joining that organization as its Executive Director.

By not properly monitoring the CSDGKC's activity related to the Kauffman Foundation grant, the district cannot ensure grant monies are expended in accordance with grant requirements. As the grant recipient, the district is ultimately responsible for ensuring compliance with these requirements.

- B. The district did not enter into timely written contracts with the CSDGKC.

As noted in part A, the district was ultimately responsible for ensuring compliance with the Kauffman Foundation grant requirements. However, the district did not enter into a contract with the CSDGKC for use of the grant funds.

In addition, in July 2007 the district paid \$18,192 to become a member of the CSDGKC. However, the School Board did not approve a contract with the CSDGKC for educational services until December 2007.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties. The written agreements should be prepared and signed before services are rendered.

WE RECOMMEND the School Board:

- A. Provide documented oversight of pass-through grants and properly monitor expenditures.
- B. Enter into timely written pass-through agreements documenting the responsibilities of each party.

AUDITEE'S RESPONSE

The School Board provided the following written responses:

- A. *The Board requires all pass-through grants be appropriately documented and expenditures monitored. The Cooperating School District grant was the only grant handled in this manner.*
- B. *The Board requires that pass-through agreements documenting the responsibilities of each party be entered into in a timely manner.*

The School Board also provided the following general response to the audit:

GENERAL RESPONSE TO STATE AUDIT

The Liberty Public School District No. 53 Board of Education (Board) appreciates the opportunity to respond to the information provided in this report. For an understanding of the events preceding the audit conducted by staff of the State Auditor's Office, a summation of the Board's knowledge and actions has been included in this general response. The Board has taken aggressive measures to ensure that comprehensive financial information is being received from Liberty Public School District (District) administration. Administrative procedures are being reviewed for appropriateness and assurance of alignment with Board policy. While the Board accepts responsibility for oversight of the district-at-large, it is important to note that many specific concerns reported in this document were limited to behaviors and decisions of a few administrators. The Board appreciates the cooperation of the current administration and staff in working toward District goals while imparting a significant reformation of the overall culture, governance and operating policies of the District.

In response to information revealed to the Board through inquiries of district patrons, February 19, 2008, the Board requested an independent auditor perform an analysis of the District that included inquiries of personnel, a review of policies and procedures, and an analysis of certain accounting data and other financial records. This review was separate from the regular financial audit of the 2007-2008 fiscal year. While the District had employed the services of the same auditing firm, Marr and Company, since the 1985-1986 fiscal year audit, the Board contracted with Westbrook and Co., P. C., Richmond, Missouri, for this performance review. Additionally, at a special meeting held March 27, 2008, the Board approved Travel Procedures, Purchasing Card Procedures, Vehicle Use Procedures and procedures for reporting Fraud, Theft & Misuse of District Assets.

In April 2008, the Board directed administration to competitively bid the services of an auditing firm for the regular fiscal financial audit. Bid invitations were issued April 23, 2008, and firms were rated based on areas including 1) audit firm experience, 2) organization, size and structure of the firm, 3) staff skills and experience, 4) understanding of the work to be performed, 5) peer reviews, and 6) cost. Prior to receiving the final report for the agreed upon procedures from Westbrook and Co., P.C., the Board established an Audit Oversight Committee to receive audit reports, to review recommendations, to develop an implementation plan, and to assist in the selection of an audit firm when necessary. The Board officially established the Audit Oversight Committee at the May 26, 2008 Special Board Meeting after interviewing qualified applicants. Five community members were appointed to serve on the committee. The Chief Financial Officer, a non-voting member, and two board members completed the membership of the committee. At the June 5, 2008 Audit Oversight Committee meeting, a review of auditing firms was conducted and the committee agreed to unanimously recommend Westbrook and Co., P.C. to perform the annual financial audit of the District. On June 6, 2008, the Board awarded the contract for audit services to Westbrook and Co., P.C. for the 2007-2008 financial audit with four, one-year renewal options. The auditing process began shortly after the award.

The Board held a work session on September 6, 2008, at which time the administration presented a comprehensive assessment of the financial condition of the District. An explanation of funds and revenue sources was presented as well as budget projections through June 2012. This work session represented the first disclosure to the entire Board that the financial condition of the District was concerning. Data presented reflected realistic projections for revenues and expenditures based on trends. At the September 15, 2008 meeting, the Board adopted a policy to begin meeting twice monthly to afford additional opportunity to receive accurate monthly projection data as well as addressing the budget reductions required to minimize the decline of the fund balance. Since that time, District administration has continued to provide updated financial information to the Board. Through these discussions, administration has identified significant contributing factors to the financial challenges of the District including:

- 1) State Revenue Concerns - The new state funding formula being phased in for all Missouri school districts is less generous to certain school districts than in prior years. The District has experienced smaller increases in state funding. The funding formula was previously a levy driven formula, and the new formula is a "student-needs driven formula." Districts having a higher percentage of free and reduced lunch students, special education students, and English Language Learner students receive more of the state allocation, and other districts, including Liberty, receive less. The District is currently in a "Hold Harmless" status meaning that the new formula provides for no less than the revenue received in the 2005-2006 fiscal year. The District anticipates receiving additional state funding beginning in the 2011-2012 fiscal year, contingent upon the formula is fully funded by the State of Missouri. Until that time, the district will need to rely on student growth for additional state funding.*
- 2) Local Revenue Assessed Valuation Concerns - School districts throughout the state of Missouri are seeing decreases in the assessed valuation of the property. Approximately forty percent of the District's revenue, excluding capital projects sources, is funded by local taxes. The assessed valuation of the real and personal property within District boundaries determines how much local tax revenue we receive; therefore, any decrease*

adversely affects District finances. Furthermore, assessed valuation projections for future years are not favorable. Although we are fortunate to have more new construction than many area school districts, the anticipated increases in assessed valuation will not support our present budget requirements. Current budget projections account for minimal increases in assessed valuation.

- 3) Recurring Financial Commitments Reliant Upon Unsustainable Revenue Increases – Programs, salary increases, additional benefits, and other recurring expenses were added in the past when revenue streams were very generous, yet these revenues have been slowing for the past few years. Instead of reducing expenditures to match revenues, funds were borrowed in July 2007 to balance the 2007-2008 budget. The Board understood this financing agreement to be an Advanced Funding Tax Anticipation Note; however, in actuality it was a 20 year lease purchase. This loan payment is an additional burden on the rapidly growing expense of running the District.*
- 4) Lack of Accurate and Transparent Budget Projections - Less than transparent financial reporting was provided to the school board, staff, and patrons. Additionally, projections were not based upon reality, but were simply percentage increases applied to revenues and expenditures and were not accurate.*
- 5) Recent Economic Downturn - A slowing economy has further exacerbated the financial concerns facing the District. The State of Missouri will be using Federal Stimulus dollars to fund the basic formula payment to public school districts in the 2009-2010 fiscal year. Funding for the future is difficult to predict. The Federal Stimulus is designed to provide support during the next two years for public education.*

The Board and administration recognize the problems now faced by the District have developed over a period of years, and the challenges presented by these problems will not evaporate on their own. Due to the information presented on the district's financial condition, the Board directed administration to develop a list of recommendations for budget reduction. The reductions were to be made with special consideration for protecting classroom instruction and preparing for continued increases in student enrollment.

At the September 15, 2008 meeting, the Board voted to accept a recommendation from administration to restructure the Audit Oversight Committee to the Audit & Finance Committee (Committee) and accepted a charter developed by administration in conjunction with the Audit Oversight Committee describing the scope of service of the Audit & Finance Committee. The Board was determined to address patron concerns and wanted to provide the new administration with the necessary support in establishing systems and procedures to ensure compliance with all federal, state and local regulations. The expanded responsibilities of the committee included monthly meetings to review and recommend to the Board any matters of audit or financial concern within the operation of the District. The Committee functions under the requirements of Board policy BCE-R Board-Appointed Committees. The overall responsibility of the Committee consists of making recommendations, including, but not limited to, the following: District policies and procedures, awarding of contracts, financial reports of revenue and expenditures, non-bond capital improvement reports, bond issue capital improvement reports, investment

reports, annual budget, long range financial planning objectives, audit reports, and internal control reports.

November 17, 2008, at the recommendation of the Audit & Finance Committee, the Board approved an agreement with EthicsPoint for fraud, waste and abuse or misuse reporting services. The system was fully implemented January 2009. All reports through this service are reviewed by the Audit and Finance Committee.

The Board received an updated charter from the Committee in February 2009 to modify membership to include, as a non-voting member, the District's Internal Control Specialist. The Internal Control Specialist directly reports to the Audit and Finance Committee on internal auditing and fraud, waste and abuse reporting and assists in reviewing and improving procedures and policies. The Audit and Finance committee meets monthly prior to the regular Board of Education meeting and makes a report to the Board regarding the data reviewed. Committee meetings are open to the public. The Audit and Finance Committee charter, minutes of meetings, board report, a prioritized review list of procedures and policies, Purchasing and Distribution Procedures, Travel Procedures, and Purchasing Card Procedures, as well as a link to the fraud, waste and abuse reporting system are posted on the District's Web site under Financial Accountability and available to the public at <http://www.liberty.k12.mo.us/about/business-operations/financial-accountability>. All documentation from Board of Education meetings and Audit and Finance Committee meetings is posted under BoardDocs and available for public view by accessing the District's Web site under Board of Education at <https://www.boarddocs.com/mo/lpsdmo/Board.nsf/Public?OpenFrameSet>.

At the direction of the Board, the Audit & Finance Committee and District administration have developed a prioritized list of procedures and policies for review and have aggressively worked since September 2008 to address areas identified by administration as well as by Westbrook and Co., P.C. through the procedural review and the 2007-2008 Financial Audit. In addition to the development of a perpetual calendar for ensuring continued review of procedures and policies, the following has been achieved:

1. Reviewed Investment Policy (May 2009)
2. Monthly Internal Audit Summary presented to Audit & Finance Committee (April 2009)
3. Updated signature cards and created annual review for insuring changes as needed (April 2009)
4. Ensure petty cash audits are performed on a timely basis (April 2009)
5. Updated Nutrition Services codes on General Ledger to reflect additional revenue categories (March 2009)
6. Accounts payable disbursements, with certain Board approved exceptions, are released only upon Board approval (March 2009)
7. Additional review of purchasing card distribution list and other cards (March 2009)
8. Addressed System Administrator internal control regarding financial processes (March 2009)
9. Establish fuel log procedures for grounds fuel pump (March 2009)
10. Implemented procedures to maintain debt schedules reflecting all current debt obligations ensuring the District is paying the correct principal and interest payments and ensuring all debt is being reported correctly on financial statements (February 2009)

11. *Set up a scholarship fund on the general ledger to account for the activity of Charles Taylor scholarship. Update the signature card to reflect the change in district personnel (February 2009)*
12. *Implementation of a Purchasing Procedures Manual and Board Policy (February 2009)*
13. *Addressed purchase of items for personal use through district vendor and receipt of district discount and/or tax exemption status in Purchasing Procedures Manual (February 2009)*
14. *All new employee record set-up for payroll processing is performed by the Human Resources Department (February 2009)*
15. *Alerted all principals and secretaries to the importance of keeping passwords confidential and only performing functions for which the Keystone system permissions allow (February 2009)*
16. *Reviewed previous practice of paying contractor from bid (no invoice created by vendor) and payments in advance of work being performed, appropriate certificates of insurance, mechanic's lien (February 2009)*
17. *Addressed purchase of used district furniture, equipment or other items including technology equipment by staff or departing staff in Purchasing Procedures Manual (February 2009)*
18. *Review of Board of Education policy and procedures regarding charitable donations (February 2009)*
19. *Review of Board of Education policy and procedures regarding consulting agreements (February 2009)*
20. *Review of Travel Procedures to update and monitor the list of disallowed or unacceptable expenses, improved guidelines for meal reimbursements, changes to improve efficiencies for all staff (January 2009)*
21. *Designated a department to handle all travel arrangements for the district (January 2009)*
22. *Addressed receipt of gifts from vendors or other purchasing incentives (January 2009)*
23. *Review of Board Policy regarding bid requirements (January 2009)*
24. *After a review of Board Policy DJF and DA regarding fraud reporting a process for reporting was established through EthicsPoint (January 2009)*
25. *Revised system permissions to allow personnel to have either input permissions or approval permissions, not both (December 2008)*
26. *Implementation of improvements to financial reporting options to BOE (December 2008)*
27. *Monthly Budget Amendment communication to BOE (October 2008)*
28. *Board President or designee approves all expenditure reimbursements for Superintendent and CFO (October 2008)*
29. *Board President or designee approves all credit card payment requests for Superintendent and CFO (October 2008)*
30. *Expanded the responsibilities and renamed the Audit Oversight Committee to Audit & Finance Committee. The expanded responsibilities of the committee include reviewing and making recommendations to the Board any matters of audit or financial concern within the operation of the District. (September 2008)*
31. *Implemented procedures to review final expenditure reports and requests for reimbursement and record grant revenue accordingly (September 2008)*

32. *Monitor all credit card activity to insure proper documentation is provided as to the purpose of the expense and detail of all attendees and their relationship to the District (July 2008)*
33. *Require all credit card activity be substantiated by detailed receipt and that it includes an explanation of the purpose of the expenditure (July 2008)*
34. *Implemented procedures to limit access to stored check stock (July 2008)*
35. *Developed monthly procedures to allocate interest to each fund based on beginning cash balances each month (July 2008)*
36. *Recording service charge expenses to an expenditure account and record interest income to a revenue account (July 2008)*
37. *Established Audit Oversight Committee for review of audits and selection of auditing firm (May 2008)*
38. *Established process for work inspection of capital projects to ensure work has been completed in satisfactory manner before signing to approve payment (May 2008)*
39. *Long-Range Projections (April 2008)*
40. *Vehicle Use Policy (March 2008)*
41. *Purchasing Card Procedures and required detailed receipts for all purchases (March 2008)*
42. *Travel Procedures and process for approval (March 2008)*
43. *Updated board policy DA regarding reporting fraud, theft and misuse of district assets (March 2008)*

All improved procedures and policies are listed on a perpetual calendar for continual review by the Audit and Finance Committee. In addition to reviewing the regular monthly financial reports and reviewing procedures and policies, the Audit and Finance Committee receives from administration a 2008 Bond Issue report, Financial Projection data and a monthly Budget Amendment report. In previous years, budget amendment increases would be provided primarily in June of each year. Beginning October 2008, administration began providing to the Board a monthly budget amendment for approval.

Workflow processes have been revised to ensure compliance with the new Travel Procedures and Purchasing and Distribution Procedures. All travel for instructional staff is now arranged by staff in the Curriculum and Instruction department while travel for other staff is handled through the Business Operations Department. A committee has been formed to address Student Related Travel procedures with an implementation target of the start of the 2009-2010 school year. Reimbursements to employees now flow through the Purchase Order process for documentation review by the Purchasing Department staff and to ensure that appropriate purchasing avenues, including those for Stores Inventory, are not circumvented and that purchases comply with the Purchasing and Distribution Procedures.

In summary, the Board is extremely pleased with the efforts of the Audit and Finance Committee members and the administration. During the fourteen month period beginning March 2008, the Board has conducted approximately 48 meetings. Additionally, the Audit and Finance committee has met 14 times during the nine-month period beginning August 2008. The actions stated in this report could not have been accomplished without the hard work and dedication of the committee members, administration, and staff. The dedication and commitment of all of our

stakeholders, including our staff, parents, and community patrons have allowed our District to rise above many of the challenges that have confronted us during the past several months. Great teaching and learning has served as the mainstay of the District operation as these challenges have been overcome and will remain our focus as the Board and supporting teams work toward reinstating financial stability and the trust of District patrons.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

LIBERTY 53 SCHOOL DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Liberty 53 School District is located in Clay County, Missouri, and covers 85 square miles and nine municipalities.

The district operates a senior high school (grades 10-12), two junior high schools (grades 8-9), two middle schools (grades 6-7), nine elementary schools (grades K-5), and an early childhood center. Enrollment was approximately 9,700 for the 2007-2008 school year. The district employed 1,526 full- and part-time employees, including 44 administrators, 635 teachers, and 847 support staff.

The Liberty 53 School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

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 during the year ended June 30, 2008, were:

School Board	Dates of Service During the Year Ended June 30, 2008
John Sedlock, President	July 2007-June 2008
Bren Abbott, Vice President	July 2007-June 2008
Jeff Akright, Member	July 2007-June 2008
Cindy Dunlap, Member (1)	July 2007-June 2008
Ken Robinson, Member	July 2007-June 2008
Evan Tripp, Member	July 2007-June 2008
Robert Young, Member (2)	July 2007-June 2008

(1) Served as Vice President from July 2007 through April 2008.

(2) Served as President from July 2007 through April 2008.

The district's other officials during the year ended June 30, 2008, are identified below. The compensation of these officials is established by the school board.

Other Officials	Dates of Service During the Year Ended June 30, 2008	Compensation Paid for the Year Ended June 30, 2008
Michael Brewer, Interim Superintendent (1)	July 2007-June 2008	\$ 126,775
Dr. Phil Wright, Superintendent of Schools (2)	July 2007-April 2008	180,085
Eileen Houston-Stewart, Assistant Superintendent Communications	July 2007-June 2008	89,028
Dr. Steven Fleming, Assistant Superintendent Human Resources (3, 10)	July 2007-June 2008	163,880
Gregory Dufoe, Assistant Superintendent Curriculum and Instruction (4, 10)	July 2007-June 2008	122,500
Carol Embree, Chief Financial Officer (5, 10)	July 2007-March 2008	118,152
James Hammen, Executive Director Personnel (6, 10)	July 2007-June 2008	127,100
Colleen Jones, Executive Director Professional Development (10)	July 2007-June 2008	94,417
Dee Rosekrans, Director Community Development (7, 10)	July 2007-June 2008	84,600
Chester Walker, Director Custodial Services	July 2007-June 2008	72,700
Steve Aldrich, Director Maintenance	November 2007-June 2008	37,926
Jason Maeder, Director Maintenance	July 2007-November 2007	22,400
Justin Presson, Director Grounds	July 2007-June 2008	51,984
Rick Fletcher, Director Safety and Security (9)	July 2007-June 2008	27,227
Curt Roberts, Director Transportation (10)	July 2007-June 2008	85,400
Debbie Ervay, Director Kids Zone (10)	July 2007-June 2008	64,400
Lawrence Katzer III, Director Technology	July 2007-June 2008	80,700
Cindy Hormel, Director Nutritional Services (10)	July 2007-June 2008	94,600
Kathy Ellermeier, Director Health Services (9)	July 2007-June 2008	26,374
Barbara Wippich, Director Assessment (8, 10)	July 2007-June 2008	118,900

Eunice Johnson, Director Special Education (10)	July 2007-June 2008	92,308
Roger Kelley, Director Fine Arts (10)	July 2007-June 2008	75,675
Rebecca Gossett, Director Early Childhood	July 2007-June 2008	81,900
Jason Breit, Director Purchasing/Warehousing	July 2007-June 2008	72,820
Robert Citro, Director Information Technology (10)	July 2007-June 2008	75,500

- (1) Michael Brewer, former Assistant Superintendent Support Services, became Interim Superintendent of Schools in April 2008, until he was permanently appointed Superintendent of Schools in December 2008. Michael Brewer is also acting as Assistant Superintendent Support Services as the position is currently unfilled. Compensation includes sick leave payout of \$1,000.
- (2) Dr. Phil Wright resigned in April 2008, but was paid his full compensation through the end of fiscal year 2008.
- (3) Dr. Steven Fleming was placed on paid administrative leave beginning April 2008, and retired from the district in January 2009. Compensation includes sick leave payout of \$1,000. Dr. Robert Vogelaar, former principal, filled the role of this position in April 2008 until he became Interim Assistant Superintendent Human Resources in July 2008.
- (4) Gregory Dufoe resigned in June 2008. Colleen Jones was promoted to Assistant Superintendent Curriculum and Instruction in July 2008.
- (5) Carol Embree resigned as CFO in March 2008 and was rehired as CFO in July 2008. During the period she was not CFO, Ms. Embree was completing CFO duties in a temporary capacity as an hourly employee pending the hiring of a new CFO. Her compensation included \$6,338 of accrued vacation.
- (6) James Hammen was placed on paid administrative leave in April 2008 and rehired as Director of Student Services in September 2008. His compensation includes a \$1,000 sick leave payout and \$1,000 of accrued vacation. The Executive Director of Personnel position has been eliminated.
- (7) Compensation includes a \$1,000 sick leave payout and \$1,200 of accrued vacation.
- (8) Compensation includes a \$1,000 sick leave payout.
- (9) Hourly paid employee working in a part-time capacity.

(10) Various employees received travel allowances, included in the salary amounts above, ranging from \$200-\$400 per month. The total travel allowances paid to these employees for fiscal year 2008 was \$39,200.

Assessed valuations and tax rates for 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Assessed valuation	\$ <u>750,177,180</u>	\$ <u>674,411,384</u>
Tax rates:		
Incidental	\$ 4.6450	\$ 4.6500
Debt service	<u>0.9950</u>	<u>0.9900</u>
Total	<u>\$ 5.6400</u>	<u>\$ 5.6400</u>