



Susan Montee, JD, CPA  
Missouri State Auditor

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# Jennings School District



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**Susan Montee, JD, CPA**  
Missouri State Auditor

# YELLOW SHEET

## Jennings School District audit findings

### Financial Condition

The financial condition of the district has declined in recent years, with the operating funds balance declining \$12.6 million (56 percent) from the beginning of fiscal year 2005 through 2008. Operational disbursements exceeded receipts every year for the past 4 years by an average of \$3.1 million per year. Several factors which contributed to this situation are noted in the audit report.

We recommend the School Board closely monitor the financial condition of the district and take appropriate action to ensure the long-term stability of the district's financial condition.

### Hand-Held Computer Project

The district spent a total of approximately \$1,254,000 to implement a hand-held computer project, including 2,572 hand-held units, cases for the units, wireless keyboards, other equipment, classroom modifications, and software training sessions. The project significantly exceeded its budget, was not properly bid, was mismanaged, and the usage of the units is low.

We recommend the School Board evaluate whether to continue with the hand-held computer project. If the program is discontinued, proper disposal of the units should be considered. In addition, the board should require documented cost/benefit analysis for future large scale projects and require competitive bidding for goods and services.

### Administrative Expenses

Administrator salaries increased by a total of approximately \$988,000 from fiscal year 2006 to 2008. The increase is primarily due to the creation of nine administrative positions. In addition, the severance package paid to the former Superintendent appears excessive. The board agreed to pay \$238,817 to buy out the remainder of the contract (through June 2009) and to pay \$10,892 for her and half of her spouse's health insurance through June 30, 2009. The contract with the former Superintendent did not specify any severance conditions. The \$500 monthly car allowance included in the current and former Superintendents' contracts also does not appear reasonable.

We recommend the School Board evaluate the current administrative salary structure to determine if costs can be reduced to more reasonable levels and ensure future employment contracts contain reasonable severance conditions.

### Disbursements

Several purchases were not competitively bid or competitive requests for proposals were not obtained. In addition, the district has incurred significant costs to purchase, renovate and operate a new alternative high school building. The board also approved the purchase of an empty real estate lot next to the Central Office for \$172,500. Documentation in the board minutes contained no stated purpose for the purchase and as of



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February 2009, the land was unused. Mowing services costing \$4,410 appeared unnecessary and/or unauthorized. Documentation of change orders for several projects was not maintained by the district.

### Accounting Procedures and Controls at the School Level

There is a lack of district-wide policies and procedures related to the receipt and disbursement of monies at the school level. Monies collected and disbursed at two schools are not reported to the Business office or the state. Procedures for receipting and depositing monies and maintaining petty cash funds need improvement. In addition, security officers and custodians working athletic events at the high school are paid in cash and the payments are not reported to the Internal Revenue Service. Invoices for student activity account disbursements are not submitted to the Business office before payments are made.

### Cellular Phone Use and Controls

The district does not have a written cellular phone use policy and weaknesses exist in the district's controls over the use of its cellular phones. A list of district-owned cellular phones, showing each number and the person assigned the phone, is not kept up-to-date. For the year ended June 30, 2008, the district paid \$32,500 in cellular phone charges for 60 phones.

### Business Office Accounting Procedures and Controls

Improvements are needed in the Business Office's accounting controls and procedures. Prenumbered receipts slips are not issued for all monies received and deposits are not made on a timely basis. The petty cash funds have excessive balances and are used to pay for items which should be purchased through the normal disbursement process. Procedures have not been established to routinely follow up on outstanding checks.

### Computer Controls and Emergency Plan

The district's computer and data controls need improvement. Access to computer systems and data is not adequately restricted to only authorized users. Backup disks of information used to provide a means of recreating destroyed master disks are not stored offsite. The district does not have a formal emergency contingency plan for its computer systems.

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# **SUSAN MONTEE, JD, CPA**

## **Missouri State Auditor**

Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
The Board of Education  
Jennings School District

The State Auditor was requested by former Governor Matt Blunt under Section 26.060, RSMo, to audit the Jennings School District. The school district engaged Michael Cummins, Certified Public Accountant (CPA), P.C., to audit the district's financial statements for the year ended June 30, 2008. To minimize duplication of effort, we reviewed the 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 taxpayer 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 district; 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 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 Organization and Statistical Information is presented for informational purposes. This information was obtained from the school district's management 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 Jennings School District.

A handwritten signature in black ink, appearing to read "Susan Montee".

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:	Robert E. Showers, CPA
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Audit Staff:	Robert Graham

# Jennings School District Management Advisory Report State Auditor's Findings

## 1. Financial Condition

The financial condition of the district has declined in recent years, with the operating fund balance declining approximately \$12.6 million (56 percent) from the beginning of fiscal year 2005 through 2008. The following table reflects the receipts, disbursements, and cash balances for the 4 years ended June 30, 2008:

	2005	2006	2007	2008
Beginning Balance \$	22,495,290	19,682,437	17,184,181	12,999,687
Receipts	29,057,301	31,012,641	31,169,743	33,702,852
Disbursements	(31,870,154)	(33,510,897)	(35,354,237)	(36,802,594)
Ending Balance \$	19,682,437	17,184,181	12,999,687	9,899,945

While receipts have generally increased, an increase in spending has led to the decline in the district's financial condition. Operational disbursements have exceeded receipts every year for the past 4 years, by an average of approximately \$3.1 million per year. Spending has been greater than receipts due to several factors, including the creation of new administrative positions and the severance package for the former Superintendent (see MAR finding number 3), the purchase and renovation of a building to house the district's alternative high school, increased costs of operating the alternative school (see MAR finding number 4), a questionable real estate purchase (see MAR finding number 4), and implementation of the hand-held computer program (see MAR finding number 2). In addition, numerous construction projects and service contracts were not properly bid, which resulted in less assurance the district contracted with the lowest and best bidders (see MAR finding number 4).

The Jennings School District has been classified under the Missouri School Improvement Program (MSIP) as "Provisionally Accredited" by the Missouri Department of Elementary and Secondary Education (DESE). A provisionally accredited district has not met enough MSIP standards and indicators to be accredited. To help improve the district's accreditation, the School Board must take responsibility to ensure the district's financial condition is secure to provide needed resources to improve the district.

## Recommendations

The School Board closely monitor the financial condition of the district and take appropriate action to ensure the long-term stability of the district's financial condition.

## Auditee's Response

*The School Board provided the following written response:*

*At the start of the 2008-09 school year, the District faced a \$3 million budgeted deficit. Various cost cutting measures were implemented throughout the current year. Due to the savings, we anticipate our actual deficit to be \$1.5 million.*



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*The Board of Education has already approved approximately \$2.5 million of budget cuts for the 2009-2010 school year including reductions in personnel, a two percent salary cut for administrators and teachers, and cutting purchased services and supplies. Additional cuts will be made to ensure that the 2009-2010 operating budget has a deficit of not more than \$300,000.*

## **2. Hand-Held Computer Project**

The district's 2006 hand-held computer project significantly exceeded its budget, was not properly bid, and was mismanaged. In addition, the usage of the units is low. On the recommendation of the former Superintendent, and in coordination with the district's Technology Department, the School Board approved a plan to provide each student in grades 3 through 12 a hand-held computer to assist the students with their school work. The preliminary work on the project was performed from August 2006 through November 2006. Overall, the district spent approximately \$1,254,000 to implement the project, including 2,572 hand-held units, cases for the units, wireless keyboards, other equipment, classroom modifications, and software training sessions.

### **2.1 Project budget**

The district significantly exceeded the approved \$950,000 budget for the project. The cost of the units went over budget by approximately \$101,000, while software and training costs went over budget by approximately \$85,000 and \$80,000, respectively, and the cost of a \$16,700 server was not budgeted at all. In addition, the budget relied on \$31,700 in federal grants, which the district did not receive. One grant application was canceled for unknown reasons and district personnel do not know why they did not receive the other grant.

The budget process provides a means to allocate and monitor financial resources. Failure to adhere to the project budget reduces the effectiveness of this process. District officials should ensure budgets for future projects include all potential costs and adhere to the budget limits established.

### **2.2 Sole source bid**

The district solicited bids from only one vendor for the units. According to district personnel, an analysis was performed to determine which type of hand-held computer would be the most cost-effective option for implementing the project; however, this analysis was never 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.

### **2.3 Project management**

Overall mismanagement of the project led to significant inefficiencies. According to Technology Department personnel, the former Superintendent rejected a suggestion to use a smaller test group and requested a district-wide launch, leading to significant inefficiencies. The district purchased a server for \$16,700 and hand-held learning environment software and





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licenses for each unit at a total cost of \$60,575. The software program would allow the hand-held units to use the server so teachers could download the students' files to their own computers. However, the server did not work as planned because the students' units were not properly formatted. After one year, the software licenses were canceled. While the hand-held computers can still function without the software, the server is now useless. A test launch of the units would have identified the software issues and allowed the district to save on software costs.

In addition, the district intended to spend \$572,800 for 2,200 hand-held computers and cases and utilize a rebate to receive 312 free units. However, program administrators failed to take advantage of the rebate offer, resulting in additional costs totaling \$77,500. Overall, the district actually spent \$673,800 for 2,500 hand-held computers and cases and received 72 free units.

The usage of the units is currently very minimal. Each classroom is stocked with hand-held computers for students to use; however, according to district personnel, the units are used at the discretion of each teacher. According to district staff, some teachers use them on a regular basis, but the majority of teachers only use them occasionally as calculators and for note taking. According to district staff, the students cannot complete assignments on the units due to the length of time it would take for teachers to individually transfer assignments from each hand-held computer to their own computer. As of January 2009, there were 324 hand-held computers in storage.

## Recommendations

The School Board evaluate whether to continue the hand-held computer project. If the program is discontinued, proper disposal of the units should be considered. In addition, the School Board should require documented cost/benefit analyses for future large scale projects and require competitive bidding for goods and services.

## Auditee's Response

*The School Board provided the following written response:*

*The palm project was an attempt to bridge the technology disparity among the demographic of our students in order to boost student achievement. The District is currently in the process of hiring a Chief Academic Officer who will review curriculum to determine how the hand-held computers can be integrated into classroom use for the 2009-10 school year.*

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## 3. Administrative Expenses

An increase in administrative costs of the district has contributed to the district's declining financial condition. Significant increases in administrative salaries, an excessive contract buyout of the former Superintendent, and an excessive Superintendent's car allowance have contributed to the increases in administrative costs.



## Jennings School District Management Advisory Report – State Auditor's Findings

### 3.1 Administrator salaries

Administrator salaries increased by a total of approximately \$988,000 from fiscal year 2006 to 2008. The increase is primarily due to the creation of nine administrative positions. The new positions were created and filled by the previous Superintendent and approved by the School Board. The new positions include four principal positions<sup>1</sup>, two Directors of Curriculum (one for math and one for communication arts), a Communication Arts Specialist, and a Director of Human Resources. In addition, the district hired a second Director of Technology despite already having one on staff. The existing Director of Technology remained on staff at the same salary. In addition, when the Director of Federal Programs and Facilities Director positions were refilled in fiscal year 2007, the individuals placed in those positions were given raises of approximately \$44,000 and \$47,000, respectively, over their predecessors. The reasons for the addition of these positions are not clear, and the necessity of the positions is questionable, given the small size of the district. To ensure the financial condition of the district does not decline further, the board should evaluate and make appropriate adjustments to its administrative salary structure.

### 3.2 Superintendant severance package

The severance package paid to the former Superintendent appears excessive. The School Board terminated the contract of the former Superintendent in February 2008, citing mismanagement and declining student test scores. As part of the Superintendent's severance package, the board agreed to pay \$238,817 to buy out the remainder of her contract (through June 2009) and \$10,892 for her and half of her spouse's health insurance through June 30, 2009. The severance package paid by the district appears excessive considering the reasons cited by the board for the termination. The district's contract with the former Superintendent did not specify any severance conditions, and it is unclear why the board agreed to pay the health insurance costs. An administrative employment contract which contains clear severance conditions is in the best interest of the district and may help avoid unnecessary severance costs and related misunderstandings.

### 3.3 Superintendant car allowance

The \$500 monthly car allowance included in contracts of the current and former Superintendents does not appear reasonable. The payment is intended to cover the Superintendent's district-related travel costs within St. Louis County. Travel outside St. Louis County is reimbursable separately. At the district mileage rate of 42 cents per mile, the Superintendent would have to drive 1,190 miles per month, or 60 miles per work day to earn a \$500 travel reimbursement. Setting up the Superintendent's contract in this manner appears to be a supplement to the Superintendent's salary. To ensure the Superintendent's monthly car allowance is reasonable, the board should

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<sup>1</sup> In fiscal year 2007, there were 5 principal positions, for the majority of fiscal year 2008 there were 9 principal positions, and currently there are 8 principals.



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base the car allowance on the estimated number of miles actually traveled per month.

## Recommendations

The School Board:

- 3.1 Evaluate the current administrative salary structure to determine if costs can be reduced to more reasonable levels.
- 3.2 Ensure future employment contracts contain reasonable severance conditions.
- 3.3 Set the Superintendent's car allowance at a reasonable rate, based on the estimated number of business miles driven per month.

## Auditee's Response

*The School Board provided the following written responses:*

- 3.1 *There will be a net reduction of at least four administrative positions for 2009-2010, for a savings of approximately \$400,000. Other positions are still under review, so additional cuts are possible. Also for next year, administrator salaries have been cut by two percent, saving an additional \$50,000.*
- 3.2 *The School District of Jennings has changed legal counsel, and any future employment contracts will contain a reasonable severance condition.*
- 3.3 *The car allowance included in the superintendent's contract is similar to those found in other school districts throughout the St. Louis metropolitan area. Nineteen of 23 school districts in St. Louis County pay this allowance ranging from \$250-\$833. However, the superintendent's contract will be amended reducing the car allowance from \$500 to \$200 effective July 1, 2009.*

## 4. Disbursements

Competitive bids or competitive requests for proposals were not obtained for several purchases. The district has incurred additional costs to purchase and operate the alternative high school, and on a questionable land purchase without maintaining adequate documentation to justify the purchases. The district also incurred unnecessary costs for mowing services which were not authorized by the board, and documentation of change orders for several projects was not maintained.

### 4.1 Bidding procedures

Several purchases were not competitively bid or competitive requests for proposals were not obtained. The district's bidding policy only requires competitive bidding for insurance contracts, bank depository services, and construction of facilities projected to exceed \$15,000, as required by state law. The district's current bidding procedures could be made more effective



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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 or request competitive proposals:

Item	Cost
Installation of power in high school computer labs	\$130,373
Carpet installation at both Fairview schools	71,305
Carpet installation at the alternative high school	35,850
Electrical work at the alternative high school	30,715
Carpet installation at the high school	12,828
Carpet installation at the Facilities Department	12,086
Electrical work at Woodland Elementary	11,040
HVAC system work at the alternative high school	9,653
Parking lot repairs	9,458

We also noted the proposal for the installation of power in the high school computer labs was submitted after the work was completed.

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 that are 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 bid specifications, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors. In addition, all bids and competitive requests should be received and evaluated by district officials before work has started.

#### 4.2 Alternative high school costs

The district has incurred significant costs to purchase, renovate, and operate a new alternative high school building. In June 2007, the district purchased two tracts of land costing \$507,800 for the purpose of housing the alternative high school. The land contained an old bank building that was to be converted into a school. The district spent \$348,000 from July 2007 through January 2009 on improvements to the building. In addition, the



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district spent approximately \$466,800<sup>2</sup> to operate the alternative high school program for approximately 90 students during fiscal year 2008. Prior to fiscal year 2008, the district contracted with a vendor to house and operate the alternative high school at an annual cost of \$338,700, for approximately 80 students. School Board members indicated a cost analysis was performed, which stated that while significant monies would be spent at the beginning of the project, the benefits would outweigh the costs over time. However, documentation of the analysis could not be found during audit work.

Performing a complete cost analysis prior to undertaking a significant project, such as the alternative high school project, can help ensure management has considered all relevant costs and factors. Documentation of any analysis performed should be maintained to provide evidence to support the board's decision and assist in ongoing monitoring of the project.

### 4.3 Land purchase

In May 2007, the district purchased an empty real estate lot next to the Central Office for \$172,500. Documentation presented to the board for approval contained no stated purpose for the purchase. According to district personnel, neither an engineering study nor soil testing was performed on the lot prior to the purchase to determine whether construction could be performed on the property. School Board members indicated they were advised to purchase the land to prevent a business from being built on the property. However, this discussion was not documented in the board minutes. As of February 2009, the land was unused.

To ensure significant land or building purchases are necessary and in the best interest of the district, the purpose of the purchase should be documented and all necessary studies or testing should be performed prior to the purchase.

### 4.4 Mowing service

Mowing services appeared unnecessary and/or unauthorized. The district authorized three weeks of mowing service at \$315 per week; however, the vendor was allowed to mow for 14 weeks and bill the district for \$4,410. According to district personnel, the district's maintenance staff could have performed all of the mowing. To justify contracting for the services, a memo from the former Director of Facilities indicated the district would have to purchase a new mower for \$9,580; however, approximately two weeks before the memo was written, a new mower had already been purchased for \$7,160. No documentation was present to explain the need for the additional 11 weeks of services, and no explanation was given of why the vendor was paid for unauthorized services.

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<sup>2</sup> Does not include utility or other incidental costs which are not tracked to the individual school building level.



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To ensure payments for services are necessary and authorized, the reasons for increases in existing services should be adequately documented.

#### 4.5 Change order documentation

Documentation of change orders for several projects was not maintained by the district. Invoices and memos reference change orders, but no details could be provided to explain why the change orders were necessary. Examples of projects for which change orders were not documented during the year ended June 30, 2008, are as follows:

<b>Project</b>	<b>Original Contract Amount</b>	<b>Amount Paid</b>
Roof replacement at Woodland Elementary	\$318,872	322,296
Carpet installation at both Fairview schools	69,937	71,305
Asbestos abatement at the alternative high school	66,720	74,320

The district should obtain contract amendments or change orders for all significant changes to contracts to ensure additional disbursements represent valid and appropriate costs to the district. If the scope of a project changes substantially, consideration should be given to rebidding the project.

## Recommendations

The School Board:

- 4.1 Adopt a more comprehensive bid policy which requires bidding and establishes bid guidelines for other types of disbursements. Such bid policies 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 these circumstances. In addition, the School Board should ensure all bids and proposals for services are received and evaluated before services have started.
- 4.2 Perform and maintain documentation of a cost analysis of the alternative high school program to determine if options exist to implement the program in a more cost-effective manner.
- 4.3 Specify the purpose of any future land or property purchases at the time of purchase.
- 4.4 Ensure all disbursements are necessary and authorized.
- 4.5 Review requests for proposals for completeness to minimize the need for change orders. In addition, the School Board should obtain, review, and approve contract amendments or change orders for all



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significant changes to contracts and consider rebidding projects that change substantially in scope.

## Auditee's Response

*The School Board provided the following written responses:*

4.1 *Prior to the start of the 2009-2010 fiscal year, the District will have in place a more comprehensive bid policy. Appropriate documentation will be retained for all bids performed. Procedures will be implemented in the Business Office to monitor purchases to ensure the bid policy is being followed.*

4.2 *Prior to the creation of the current alternative program, the District contracted with a private vendor to provide alternative education to secondary students. Because it was operated by an outside vendor, District control over the curriculum and the students was limited. A District operated program appears to be a much more effective way of serving the needs of the students.*

*The Board was informed by a former administrator that a cost benefit analysis had been performed that supported the creation of the alternative school. Documentation of such study is not available. Cost is a concern and one position has been eliminated in that program for the 2009-2010 school year. Review of the program continues.*

4.3 *It was the understanding of the Board that there was interest from other parties to purchase the land and construct a facility that would not be appropriate next to an elementary school. So the land was purchased to prevent development by others.*

*There are no plans currently for the purchase of additional land or property. Any future purchases will be subject to complete review outlining the purpose and cost benefit.*

4.4 *All major expenditures will be subject to the bidding process. Business Office procedures are being modified to ensure compliance for the 2009-10 school year.*

4.5 *As part of the revised bid policy, procedure and practice, proposals will be thoroughly reviewed for completeness and accuracy. Change orders, if needed, will be reviewed and approved prior to any additional work being performed.*



## 5. Accounting Procedures and Controls at the School Level

There is a lack of district-wide policies and procedures related to the receipt and disbursement of monies at the school level. As a result, weaknesses were noted in accounting controls and procedures at the four schools visited including Jennings High School, Gary Gore Elementary, Fairview Primary, and Fairview Intermediate. Monies collected and disbursed by Fairview Primary and Fairview Intermediate are not reported to the Business Office or the state. Procedures for receipting and depositing monies and maintaining petty cash funds need improvement. In addition, security officers and custodians who work athletic events at the high school are paid in cash and invoices for student activity account disbursements are not submitted to the Business Office before payments are made.

### 5.1 Fairview schools bank accounts

There is a lack of district-wide policies regarding bank accounts at the school level. All schools in the district collect student activity receipts. Every school except Fairview Primary and Fairview Intermediate deposits receipts into a district-wide bank account and submits payment requisitions to the Business Office. The following concerns were noted during a review of the Fairview schools' bank accounts:

- The student activity monies collected and disbursed by these two schools are not entered into the district's accounting system, and therefore, are not reported on the Annual Secretary of the Board Report (ASBR) filed with the DESE. For the year ended June 30, 2008, Fairview Primary collected and disbursed \$19,932 and \$24,683, respectively, and Fairview Intermediate collected and disbursed \$24,487 and \$22,175, respectively.
- Bank reconciliations are not performed on either of the school accounts. Fairview Primary maintains a checkbook balance for each type of receipt they collect. A review of the fundraiser balance revealed the balance was \$924 higher than it was supposed to be due to a mathematical error made in September 2008. This would have been discovered much sooner had monthly reconciliations been performed.

Fairview Intermediate does not maintain a checkbook balance. School personnel indicated they rely on the monthly bank statements for the account balance. A review of checks issued by Fairview Intermediate revealed two outstanding checks as of January 2009. One check had been outstanding since February 2008. The payee had lost the check and was issued another; however, a stop payment was never placed on the original check. Another check has been outstanding since June 2008. School personnel were not aware the check was outstanding.

- Accounting duties are not adequately segregated at Fairview Intermediate. One employee receives and disburses most monies





## Jennings School District Management Advisory Report – State Auditor's Findings

with no periodic documented reviews by the principal or assistant principal.

Section 165.011, RSMo, establishes four funds to be used for the accounting of all school monies including the teachers' fund, incidental fund, capital projects fund, and debt service fund. The district has designated the incidental fund for accounting for student activity monies. By not turning over all student activity monies to the Business Office, the district cannot properly account for the monies. The failure to turn these funds over to the Business Office has also resulted in the understatement of district receipts and disbursements on the ASBR. Due to the lack of reporting and poor internal controls related to the bank accounts, the School Board should require Fairview Primary and Fairview Intermediate close the bank accounts and transfer the balances to the district-wide student activity bank account.

### 5.2 Receipt slips

Receipt slips are not issued for monies received at Fairview Primary. Receipt slips are only issued for yearbook commissions and upon request at Gary Gore Elementary and primarily for field trip fundraisers at Fairview Intermediate. To properly account for all receipts, official prenumbered receipt slips should be issued for all monies received.

### 5.3 Timeliness of deposits

None of the four schools reviewed deposit monies received in a timely manner. In addition, Jennings High School uses undeposited receipts as change funds for athletic events. The amounts withheld for the change funds are not documented. Deposits are usually made once per month.

To adequately account for collections and reduce the risk of loss, theft, or misuse of funds, receipts should be deposited intact and on a timely basis. If a change fund is needed, it should be set at a constant amount and a procedure established to reconcile to this amount each time a deposit is made.

### 5.4 Activity receipts

Jennings High School and Gary Gore Elementary do not maintain attendance sheets or use tickets for entrance to after-school events to help ensure all monies collected are eventually deposited. A cash count at Gary Gore Elementary on November 11, 2008, revealed \$560 on hand from a 6th grade dance; however, we were unable to determine if all funds were accounted for due to a lack of records.

To ensure proper accountability over entrance fees and reduce the potential for loss, theft, or misuse of funds, entrance fees received should be recorded on a collection log and reconciled to either the number of names on the attendance sheet or the number of tickets sold. Any differences should be investigated and resolved.



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## 5.5 Petty cash controls

Controls over several petty cash funds reviewed were not adequate.

- Jennings High School periodically withholds receipts from deposits when its petty cash fund is low. For the year ended June 30, 2008, \$1,984 in receipts were added to the petty cash fund instead of deposited, according to student activity account reports. Additionally, a log of petty cash transactions is not maintained and there are no records indicating the proper balance of the petty cash fund. A cash count on December 2, 2008, revealed a petty cash balance of \$357.
- Fairview Intermediate withholds \$100 for the petty cash fund when a deposit is made. While paid receipts are maintained for petty cash disbursements, a record is not maintained indicating the proper balance of the fund. A cash count on December 17, 2008, revealed a petty cash balance of \$429.
- Gary Gore Elementary starts the school year with a \$200 petty cash balance and requests additional funds from the Business Office when the fund gets low. The amount requested depends on what school officials feel is sufficient. A log is maintained to track the fund; however, it is not reconciled to the cash on hand. A cash count on November 11, 2008, revealed a petty cash balance of \$94; however, the log indicated the balance should have been \$87.

Petty cash funds should be operated on an imprest basis, meaning cash and invoices should always total the established balance. To replenish the fund, a check should be issued from the Business Office for the amount of the invoices. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are accounted for properly, detect errors, and prevent misuse.

## 5.6 Cash payments to employees

Security officers and custodians who work at high school events are paid in cash immediately after the events are over. The cash payments are not reported to the Internal Revenue Service (IRS) and there are no records maintained tracking how much cash is paid and to whom. To reduce the risk of misuse of funds, the practice of cash payments for services rendered should be prohibited. The payments should be processed through the Business Office payroll system and reported to the IRS for tax purposes.

IRS regulations require employers to report taxable compensation on W-2 forms, and withhold federal income taxes. Similarly, Chapter 143, RSMo, includes requirements for reporting compensation and withholding state income taxes. State and federal laws require employers to withhold and pay the employer's share of Social Security and Medicare taxes on compensation paid to employees. If those paid are not considered employees of the district, the compensation should be reported on Form 1099 Miscellaneous.



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## 5.7 Invoices

Invoices are maintained at the schools and not submitted to the Business Office for disbursements made from the district-wide student activity bank account. The only documentation available at the Business Office is a copy of the requisition for payment prepared by the individual schools. Without reviewing the invoices, the Business Office cannot adequately determine the propriety and accuracy of disbursements.

## Recommendations

The School Board implement policies to:

- 5.1 Require Fairview Primary and Fairview Intermediate to close their bank accounts and transfer the balances to the district-wide student activity bank account. All future student activity monies collected by the schools should be deposited to the district-wide account and payment requisitions should be transmitted to the Business Office.
- 5.2 Ensure receipt slips are issued for all monies received at the school level.
- 5.3 Ensure schools deposit all receipts intact on a timely basis. If a change fund is needed, it should be maintained at a constant amount.
- 5.4 Ensure entrance fees for all events at all schools are reconciled to either attendance sheets or tickets sold.
- 5.5 Ensure schools maintain petty cash funds on an imprest basis and the funds are periodically counted and reconciled to the imprest balance by an independent person. Logs of petty cash fund transactions should be maintained to properly document the financial activity of the funds.
- 5.6 Prohibit cash payments for services rendered. Payments for compensation should be processed through the Business Office payroll system and reported to the IRS.
- 5.7 Ensure schools submit adequate documentation for all student activity disbursements to the Business Office before processing.

## Auditee's Response

*The School Board provided the following written responses:*

- 5.1 *These two bank accounts will be closed by June 30, 2009 and all deposits and expenditures will be made through the Business Office.*
- 5.2 *The District will develop a procedure for the 2009-10 school year to properly record receipts at the schools that will include the issuance of receipt slips.*



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- 5.3 *Standards will be set for the deposit of school funds into the District's bank accounts for the 2009-10 school year. Change funds, if needed, will be set and maintained at a constant dollar amount.*
- 5.4 *Procedures will be established for the 2009-10 school year for recording and monitoring entrance fees.*
- 5.5 *All petty cash funds will be reviewed and evaluated to determine appropriate amounts for the 2009-10 school year. The funds will be maintained on an imprest basis and the Business Office will establish procedures to periodically review all petty cash accounts.*
- 5.6 *Cash payments for services rendered will be terminated with the 2009-10 school year. All such payments will be made by check through the Business Office.*
- 5.7 *Procedures are being modified for the 2009-10 school year to require all student activity disbursement documentation to be sent to the Business Office before processing.*

## 6. Cellular Phone Use and Controls

The district does not have a written cellular phone use policy and district personnel do not regularly review cellular phone use or take the necessary steps to reduce costs. Also, a list of district cellular phone users is not kept up-to-date. For the year ended June 30, 2008, the district paid \$32,500 in cellular phone charges for 60 phones.

### 6.1 Use policy

The district has not developed a written cellular phone use policy. A written cellular phone use policy is necessary to prevent misuse of district assets by ensuring there is no misunderstanding among district staff regarding cellular phone use, providing criteria for determining which employees should be assigned a cellular phone, and establishing billing review procedures.

### 6.2 Controls over use

Weaknesses exist in the district's controls over the use of its cellular phones. The following concerns were noted during a review of cellular phone invoices:

- The district uses three separate carriers. Consideration should be given to consolidating the cellular phones to one carrier as a way of reducing costs and improving administrative efficiency.
- For the year ended June 30, 2008, one phone was on a pooled (shared minutes) plan. All other phones with this carrier had 900 anytime minutes. The district paid \$5,871 in use charges for excessive minutes, which could have possibly been avoided if all phones had been on a pooled plan. In October 2008, the phones were placed on a pooled plan.



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- Use of district phones was not regularly reviewed, leading to unnecessary costs. For example, three phones had over 5,000 rollover minutes due to the purchase of excessive minutes packages. Costs could have been reduced by regularly reviewing use and adjusting plans accordingly.
- Six monthly invoices could not be located.

To ensure the efficient and effective use of cellular phones, district officials should routinely monitor cellular phone use patterns and ensure the most cost-effective plan is used. District officials should also periodically solicit bids from cellular phone carriers to ensure the district receives the best rates possible. In addition, invoices for all disbursements should be retained. Retention of records is necessary to provide evidence transactions are valid and to provide an audit trail.

### 6.3 List of phones

A list of district-owned cellular phones, showing each number and the person assigned the phone, is not kept up-to-date. The list of cellular phones for the 2008-2009 school year, which was updated for the first time in two years, does not include six phones. District personnel have not been able to determine who has one of the six phones. An up-to-date list is necessary to secure better internal control over district property. The district should periodically reconcile the phone numbers listed on the monthly invoices to the numbers on the list, with any differences investigated.

## Recommendations

The School Board:

- 6.1 Develop a written policy regarding cellular phone use and establish billing statement review procedures.
- 6.2 Revise current controls and procedures regarding cellular phones to include a thorough review process. In addition, invoices for all disbursements should be retained.
- 6.3 Periodically reconcile the cellular phone list to the phone numbers listed on monthly invoices.

## Auditee's Response

*The School Board provided the following written responses:*

*Policy and procedures will be established addressing the use of cellular phones to include monthly review of the cellular phone billing statements. All invoices will be properly reviewed and retained.*



## **7. Business Office Accounting Procedures and Controls**

Improvements are needed in the Business Office accounting controls and procedures. Prenumbered receipt slips are not issued for all monies received and deposits are not made on a timely basis. The petty cash funds have excessive balances and are used for items which should be purchased through the normal disbursement process. A former employee reimbursed herself \$275 for an expense that was also paid to a vendor with a district check. Also, procedures have not been established to follow up on old outstanding checks. The Business Office deposited receipts of approximately \$824,500 for the year ended June 30, 2008.

### **7.1 Receipt slips**

Prenumbered receipt slips are not issued for all monies received. Receipt slips are only issued for bus passes. To properly account for all receipts, official prenumbered receipt slips should be issued for all monies received immediately upon receipt.

### **7.2 Timeliness of deposits**

General Fund receipts are not deposited on a timely basis. Deposits are generally made twice a month. The average deposit for the year ended June 30, 2008, was \$34,353. In addition, checks and money orders received at various collection points in the district are not restrictively endorsed until transmitted to the Business Office.

To adequately safeguard receipts and to reduce the risk of loss, theft, or misuse of funds, all receipts should be deposited on a timely basis. In addition, checks and money orders should be restrictively endorsed immediately upon receipt.

### **7.3 Petty cash balances**

The balances of the petty cash funds maintained in the Superintendent's Office and the Business Office appear excessive. Each office maintains a \$1,500 petty cash fund. For the year ended June 30, 2008, seven reimbursements totaling \$7,239 were made to the funds. Lowering the petty cash balances would reduce the amount of cash held and the risk of loss or misuse of funds. In addition, petty cash balances and receipts are not independently reviewed periodically to ensure all funds are accounted for properly.

### **7.4 Petty cash use**

Petty cash funds are used to pay for items which should be purchased through the district's normal disbursement process. For example, employees are frequently reimbursed for expenses and mileage through the petty cash funds and funds are used to pay for meals for the School Board on meeting nights. The use of petty cash funds in this manner can lead to potential misuse of the funds. For example, a former employee paid herself \$275 by submitting an invoice for a school board meeting meal. The same invoice was submitted to the Business Office for payment.



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To ensure all disbursements are properly approved, disbursements from the petty cash fund should be made only for items which cannot be reasonably obtained through the district's normal purchasing and disbursement process.

## 7.5 Outstanding checks

Procedures have not been established to routinely follow up on outstanding checks. At January 31, 2009, the General Fund bank account had 38 outstanding checks totaling \$10,292 and the Activities Fund bank account had 14 outstanding checks totaling \$2,908 that were older than one year.

These old outstanding checks create additional and unnecessary recordkeeping. Procedures should be established to routinely investigate any checks remaining outstanding over a specified period of time. Old outstanding checks should be voided and reissued to those payees who can be readily located. If the payees cannot be located, the amount should be disbursed to the state's Unclaimed Property Section as required by Sections 447.500 through 447.595, RSMo.

## Recommendations

The School Board:

- 7.1 Implement policies to ensure receipt slips are issued for all monies received by the Business Office.
- 7.2 Implement policies to ensure all monies collected are deposited on a timely basis. In addition, the School Board should ensure personnel at all collection points restrictively endorse checks and money orders immediately upon receipt.
- 7.3 Evaluate petty cash needs of both the Superintendent's Office and Business Office and set the balances to more reasonable amounts. In addition, the School Board should ensure petty cash funds are periodically counted and reconciled to the imprest balance by an independent person.
- 7.4 Implement policies to ensure petty cash funds are used only for supplies and purchases that cannot be obtained through the normal district disbursement process.
- 7.5 Establish procedures to routinely follow up on outstanding checks. In addition, an attempt should be made to contact the payees of old outstanding checks. If the payees cannot be located, the monies should be distributed in accordance with applicable statutory provisions.



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## Auditee's Response

*The School Board provided the following written responses:*

- 7.1 *The District will develop a procedure for properly recording receipts in the Business Office that will include the issuance of receipt slips.*
- 7.2 *Standards will be set for the deposit of school funds into the District's bank accounts. All buildings will be issued endorsement stamps so checks can be restrictively endorsed immediately upon receipt.*
- 7.3 *The Business Office petty cash fund has already been reduced to \$500. For the next school year, there will be only one \$500 petty cash fund covering both the Central and Business Offices. Procedures will be established for independent review of all transactions.*
- 7.4 *Procedures will be developed on the proper use of petty cash funds and the Business Office will develop a review process to ensure compliance.*
- 7.5 *The Business Office is in the process of reviewing the status of old outstanding checks and procedures will be developed to monitor and review outstanding checks on a regular basis.*

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## 8. Computer Controls and Emergency Plan

The district's computer and data controls need improvement. Computer systems and data are vulnerable to unauthorized use, modification, and destruction. Passwords are not periodically changed, backup disks of information are not stored at an offsite location, and the district has not developed a formal emergency contingency plan.

### 8.1 Access restrictions

Access to computer systems and data is not adequately restricted to only authorized users. Although the use of passwords to access computer systems is required, passwords are not periodically changed to help ensure they remain known only to the assigned user and to reduce the risk of compromised passwords. An ineffective password system increases the risk of unauthorized access and changes to the computer systems and district data.

Passwords are an effective, simple control to provide protection against improper access to computer systems and data. Passwords should be unique and confidential, changed periodically to reduce the risk of unauthorized use, and used to restrict individuals' access to only those computer systems and data files they need to accomplish their jobs.





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## 8.2 Backup procedures

Backup disks of information used to provide a means of recreating destroyed master disks are not stored offsite. As a result, damage to the district's computer systems in the event of a disaster could make it difficult, or even impossible, to retrieve or recreate lost program modifications and/or data. Offsite storage would provide increased assurance that methods are available to restore any lost data or program modifications.

## 8.3 Formal emergency contingency plan

The district does not have a formal emergency contingency plan for its computer systems. As a result, the district has not formally negotiated arrangements for backup facilities in the event of a disaster. Contingency plans should include plans for a variety of situations, such as short- and long-term plans for backup hardware, software, facilities, personnel, and power use. Involvement of users in contingency planning is important since users will likely be responsible for maintaining at least a portion of the backup under various contingencies. The major benefit of a thorough disaster recovery plan is the ability of the district to recover rapidly from disaster or extraordinary situations that might cause considerable loss or disruption to the district. Because of the district's degree of reliance on technology, the need for contingency planning is evident.

## Recommendations

The School Board:

- 8.1 Require unique passwords for each employee that are confidential and periodically changed to prevent unauthorized access to the district's computer systems and data.
- 8.2 Ensure backup disks are stored in a secure offsite location.
- 8.3 Work with district officials to develop a formal contingency plan for the various computer systems.

## Auditee's Response

*The School Board provided the following written responses:*

- 8.1 *The district has established a plan to enforce periodic change of passwords for all network users. It will be in place prior to the start of the 2009-10 school year.*
- 8.2 *A backup and disaster-recovery plan has been developed and will be implemented by the 2009-10 school year. The current implementation of fiber enables the district to have a state of the art backup and disaster recovery plan.*
- 8.3 *A backup and disaster-recovery plan has been developed by the Director of Technology working with surrounding school districts and will be implemented by the start of the 2009-10 school year.*

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# Jennings School District

## Organization and Statistical Information

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The Jennings School District is located in St. Louis County and covers approximately 4 square miles in the cities of Jennings, County Club Hills, and Flordell Hills.

The district operates a senior high school (grades 9-12), an alternative high school (grades 9-12), a middle school (grades 7-8), 3 intermediate schools (grades 4-6) and 3 primary schools (grades K-3). Enrollment was approximately 3,100 for the 2007-2008 school year. The district employed 412 full- and part-time employees, including 27 administrators, 231 teachers, and 154 support staff.

The Jennings School District has been classified under the Missouri School Improvement Program as "Provisionally Accredited" by the Missouri Department of Elementary and Secondary Education. A provisionally accredited district has not met enough MSIP standards and indicators to be accredited.

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 as follows:

### School Board Officials

Name and Title	Dates of Service During the Year Ended June 30, 2008
Miranda Jones, President	July 2007-June 2008
Rose Mary Johnson, Vice-President	July 2007-June 2008
Joseph Turner, Treasurer	April 2008-June 2008
Yolonda Fountain-Henderson, Secretary	July 2007-June 2008
Harold Austin, Member	July 2007-June 2008
Tamara Thomas, Member	July 2007-June 2008
John Schlereth, Member	April 2008-June 2008
William Coleman, Jr., Member	July 2007-April 2008
Jackie Simmons, Member	July 2007-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.



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Other Officials

Name and Title	Dates of Service During the Year Ended June 30, 2008	Compensation Paid for the Year Ended June 30, 2008
Clarence Holman, Superintendent (1)	February 2008-June 2008	\$151,909
Dr. Kay Royster, Superindendent (2)	July 2007-February 2008	332,276
Roger Reese, Chief Financial Officer (3)	July 2007-June 2008	139,717
Joan Hubbard, Facilities Director (4)	July 2007-June 2008	115,093
Norris Roberts, Director of Technology	July 2007-June 2008	102,576
Steve Schmitz, Director of Technology	July 2007-June 2008	91,727
Lavon Hardy, Director of Human Resources	July 2007-June 2008	126,619
Shelia Nicholson, Director of Federal Programs	July 2007-June 2008	109,154
Pat Jones, Director of Curriculum-Communication Arts	July 2007-June 2008	109,154
Winifred Deavens, Director of Curriculum-Math	July 2007-June 2008	109,154
Shirley Harvey, Communication Arts Specialist	July 2007-June 2008	74,160

- (1) Includes \$83,230 earned as the Jennings High School principal from July 2007-January 2008. Mr. Holman also receives a \$500 monthly car allowance since becoming superintendent.
- (2) Terminated in February 2008. Her final pay included \$238,817 for the remainder of her contract. Also, she received \$500 per month (\$4,000 total) for a car allowance while employed.
- (3) Michael O'Connell became the Chief Financial Officer in July 2008.
- (4) Terminated in April 2008. She was paid for the remainder of the year and for 21 vacation days. Replaced by Ted Vytlačil in July 2008.