

**OFFICES OF THE  
STATE AUDITOR OF MISSOURI  
JEFFERSON CITY**

**SPECIAL REVIEW OF DESEGREGATION  
PAYMENTS TO  
KANSAS CITY, MISSOURI  
SCHOOL DISTRICT**

**YEAR ENDED JUNE 30, 1990**

**MARGARET KELLY, CPA**



Report No. 91-103  
June 20, 1991

# SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT

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## STATE AUDITOR OF MISSOURI

JEFFERSON CITY, MISSOURI 65102

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Honorable John D. Ashcroft, Governor  
and  
Honorable William L. Webster, Attorney General  
and  
Honorable Wendell Bailey, State Treasurer  
and  
James R. Moody, Commissioner  
Office of Administration  
and  
Robert E. Bartman, Commissioner  
Department of Elementary and Secondary Education  
Jefferson City, Missouri 65102  
and  
Kansas City, Missouri Board of Education  
Kansas City, Missouri 64106

We have conducted a special review of payments which the state of Missouri made under order of the U. S. District Court, Western District of Missouri, Western Division, for eligible desegregation expenditures to the Kansas City, Missouri School District of Jackson County, Missouri for the year ended June 30, 1990. The purpose of this review was to:

1. Review the financing of the desegregation program.
2. Determine that the state's share of desegregation costs is in accordance with the amounts required by court orders.
3. Review whether the Kansas City, Missouri School District is conducting the desegregation program in substantial compliance with court orders.
4. Review staffing patterns related to certain desegregation programs.
5. Review magnet school transportation costs funded by the state and by the Kansas City, Missouri School District.
6. Determine the status of implementation of the recommendations made in the State Auditor's report for the year ended June 30, 1989.

Although the state payments to the Kansas City, Missouri School District were ordered by the court, the payments apparently violate Article IV, Section 28 of the Missouri Constitution which provides, "No money shall be withdrawn from the state treasury except" on "an appropriation made by law" by the state legislature. This report should not be construed as accepting the legality of these payments, it is intended only to provide information regarding the transactions that have occurred pursuant to court orders.

Further, the purpose of this review was not to determine the reasonableness of the court-approved desegregation budget or the necessity of desegregation expenditures to achieve racial integration. Our only criteria for determining the state's share of desegregation costs were court orders and the related desegregation plan and budget for the year ended June 30, 1990, prepared by the district and approved by the court.

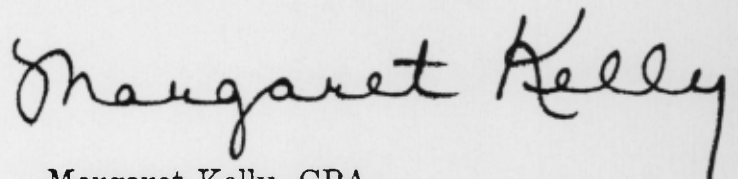
Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we inspected relevant records and reports maintained by the Kansas City, Missouri School District and examined district expenditures related to desegregation for compliance with court orders.

The data presented in the appendices were developed from the records of the district. We did not audit the data and, accordingly, we express no opinion on it.

Our review was limited to the specific matters described earlier and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying Background is presented for informational purposes. This information was obtained from various U. S. District Court orders and the school district's management.

The accompanying Management Advisory Report presents our findings and recommendations arising from our review of state payments for eligible desegregation expenditures to the Kansas City, Missouri School District during the year ended June 30, 1990.



Margaret Kelly, CPA  
State Auditor

February 7, 1991



## EXECUTIVE SUMMARY

# SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT EXECUTIVE SUMMARY

As shown in Appendix A, costs charged to the Kansas City, Missouri School District desegregation plan during the year ended June 30, 1990, were \$183,266,921 of which the state paid \$118,300,546. Included in the desegregation plan expenditures is the state's share of the Desegregation Monitoring Committee expenses of \$171,222. A cumulative summary of budgeted and actual desegregation plan expenditures is presented in Appendix A.

Following is a summary of the questioned costs noted during this review, and a description of the reasons for questioning them. These questioned amounts totaled \$4,506,179 for the year ended June 30, 1990. The state's share of these questioned costs is \$2,900,420.

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT  
EXECUTIVE SUMMARY  
YEAR ENDED JUNE 30, 1990

Program	Description	Total Questioned Cost	Management Advisory Report Number
Year Three (July 6, 1987 Court Order)			
Effective Schools	Expenditures in excess of court-ordered budget.	\$ 16	10.A.
Maintenance Plan	No bid documentation could be located.	52,354	5.B.
Total Year Three		52,370	
Year Four (July 25, 1988 Court Order)			
Effective Schools	Expenditures in excess of court-ordered budget.	58,374	10.A.
Long-Range Magnets	No bid documentation could be located.	90,385	5.B.
Magnet School Transportation	Cab overcharges.	222,381	7.A.
Base Budgets	Purchase order not signed or dated.	3,510	8.C.
Total Year Four		374,650	
Year Five (July 5, 1989 Court Order)			
Public Relations	Expenditures in excess of court-ordered budget.	17,368	9.A.
Teachers Salary	Expenditures in excess of court-ordered budget.	830,496	9.A.
Effective Schools	Expenditures in excess of court-ordered budget.	48,833	10.A.
	Payment made from copy of invoice.	32,220	10.E.
Long-Range Magnets	No bid documentation could be located.	60,417	5.B.
	Default of TTAP participant.	\$ 3,360	11.A.

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT  
EXECUTIVE SUMMARY (CONTINUED)  
YEAR ENDED JUNE 30, 1990

Program	Description	Total Questioned Cost	Management Advisory Report Number
Year Five (July 5, 1989 Court Order) (Continued) Maintenance Plan	Purchase order was not signed or dated.	\$ 175,298	8.C.
Non-program Specific	Unallocated tax revenues.	824,006	1.A.
	Unrecognized revenue from check write-offs.	8,166	1.B.
Total Year Five		<u>2,000,164</u>	
Magnet Capital Improvements (Years 3, 4, and 5)	Unsupported labor payments to Project Management Team company.	650,974	6.A.
	Change order resulting from architectural errors.	195,779	3.A.
	Change order for separate project--not part of original contract, and was not bid.	48,000	3.A.
	Emergency contract without adequate bids.	65,000	3.B.
	Employee function is duplicate of Project Management Team contractual services.	46,793	6.B.
	Documentation of land appraisal and negotiation services not located.	112,397	5.A.
	Program 683 CIP Staging has not been court approved.	223,266	9.C.
	No bid documentation could be located.	36,230	5.B.
	Documentation for acceptance of higher bid could not be located.	75,155	5.B.
	Purchase order could not be located.	\$ 113,660	8.A.



SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT  
EXECUTIVE SUMMARY (CONTINUED)  
YEAR ENDED JUNE 30, 1990

Program	Description	Total Questioned Cost	Management Advisory Report Number
Magnet Capital Improvements (Years 3, 4, and 5) (Continued)	No indication of receipt of some items nor were the items received recorded on the fixed asset listing.	\$ 154,778	8.B.
	Purchase order not signed or dated.	29,850	8.C.
	No documentation to support negotiation of services, and no approval indicated for payment.	4,505	4.B.
	No documentation to support negotiation of services.	87,268	4.B.
	No documentation of how asbestos firms were selected.	50,833	4.B.
	No approval indicated for payment.	14,894	4.B.
	Original bid could not be located.	24,650	4.B.
	Asbestos settlement received by KCMSD, not allocated to desegregation fund.	144,963	4.C.
Total Capital Improvements Court Order		<u>2,078,995</u>	
Total Questioned Costs, Year Ended June 30, 1990		<u>\$ 4,506,179</u>	

BACKGROUND

## SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT BACKGROUND

In 1977, the Kansas City, Missouri School District (KCMSD) on behalf of all children of the district sued various federal agencies (the Department of Health, Education and Welfare, the Department of Housing and Urban Development, and the Department of Transportation), the states of Missouri and Kansas, the Governor and the State Board of Education of each state, five school districts in Kansas, thirteen school districts in Missouri, and the superintendent of each school district in U. S. District Court, Western District of Missouri, Western Division, alleging these various institutions caused or contributed to cause a racially segregated urban school system in violation of the U. S. Constitution.

In 1978, the U. S. District Court ruled that the KCMSD could not represent its students as plaintiff in the lawsuit and ordered the KCMSD be realigned as a defendant in the case. Additionally, the U. S. District Court dismissed the state of Kansas, its officials and school districts from the lawsuit subject to an appeal of this matter in the Eighth Circuit Court of Appeals.

In 1979, the KCMSD filed a cross-claim with the U. S. District Court against the state of Missouri and subsequently filed a motion with the court for a partial summary judgment. In 1981, the former motion was allowed, but the U. S. District Court refused to grant immediate relief regarding the latter request.

In 1984, the U. S. District Court dismissed the thirteen Missouri school districts and the various federal agencies from the lawsuit ruling that only the KCMSD and the state of Missouri were responsible for the segregated urban school district, and ordered each to develop a desegregation plan for the court's review to provide a framework for the ultimate remedial solution to the lawsuit. The KCMSD and the state of Missouri submitted desegregation plans to the U. S. District Court.

The U. S. District Court rejected the interdistrict plan submitted by the KCMSD and requested an alternative intradistrict plan. This new plan, along with the state's intradistrict plan, was considered during the remedy hearings in May 1985. The alternative plan prepared by the KCMSD was approved by the U. S. District Court on June 14, 1985.

The desegregation plan adopted by the U. S. District Court included the following goals:

1. Conduct a study to determine the feasibility of further reductions in the percentages of black students in the twenty-five schools whose enrollment was 90 percent or more black, giving due consideration to the need for students to attend schools as close to home as possible;
2. Establish magnet schools with specialized learning programs to attract and hold students of all races;

3. Encourage voluntary desegregative transfers and new enrollments by improving the attractiveness and educational quality of all schools so conditions of the facilities and the educational programs will not serve as deterrents to students considering enrollment in any school;
4. Increase the quality education component of KCMSD by restoring its eligibility for AAA classification pursuant to the guidelines of the Missouri Department of Elementary and Secondary Education;
5. Develop more manageable teaching loads to increase individual attention and instruction per student by reducing elementary and secondary school class sizes;
6. Expand the amount of learning time available and improve the academic achievement of students within the KCMSD through a summer school program;
7. Implement a staff development program to specifically meet the training needs of individual teachers and principals;
8. Use a desegregation public relations program aimed at informing and soliciting the support of community members about the desegregation plan; and
9. Develop a voluntary interdistrict transfer program with surrounding suburban districts.

The U. S. District Court ordered the state of Missouri to fund the desegregation plan in the following manner:

- A. The state shall pay in full costs of reducing class size, improving student achievement through effective schools and extensive staff development using magnet schools, developing and implementing a public information program, and encouraging voluntary interdistrict student transfers.
- B. The state shall pay 50 percent of the costs of achieving an AAA rating, allowing certain students to attend a summer school program, providing full day kindergarten through six, cross-age instruction as well as parental, and implementing an early childhood development program.
- C. Capital improvement funding was to be shared between the state at 72.97 percent and KCMSD at 27.03 percent for expenditures up to \$27 million and \$10 million, respectively.

In June 1986, the U. S. District Court issued a court order designed to enhance the goals previously outlined in the court's desegregation plan. This court order established the budget estimates for the next school year and clarified spending criteria of the various programs previously authorized by the court. In addition, the court approved funding for three magnet schools designed to attract nonminority enrollment and to provide a vehicle to improve student achievement.

In November 1986, the U. S. District Court approved a comprehensive magnet school plan to be implemented over a six-year period with the funding requirements estimated



at \$142,736,025. Of this amount, \$89,877,724 is to be paid by the state of Missouri, with the remaining amount of \$52,858,301 for improvements to eleven existing schools and the construction of four new schools, being funded by both the state and KCMSD.

In December 1986, the Eighth Circuit Court of Appeals upheld the U. S. District Court's decision that the suburban school districts, as well as the U. S. Department of Housing and Urban Development, are not liable for KCMSD's segregation and may not be ordered to participate in desegregation relief. In addition, the Eighth Circuit Court of Appeals directed the U. S. District Court to modify its orders to divide all costs associated with the desegregation plan equally between KCMSD and the state. Subsequently, the KCMSD asked the Eighth Circuit Court of Appeals to remand this cause to the district court to determine additional facts. The Eighth Circuit Court of Appeals granted this request in March 1987. In July 1987, the U. S. District Court established that the state and district are jointly and severely liable for the desegregation budget at 75 percent and 25 percent, respectively.

In July 1987, the U. S. District Court approved the Year 3 Desegregation Budget.

In September 1987, the U. S. District Court approved the following:

1. A long-range capital improvement plan for \$187,450,334 to be completed by the fall of 1990. This amount was to be funded equally by the state and the KCMSD.
2. A 1.5 percent surcharge on the Missouri State Income Tax of residents and nonresidents of the KCMSD who earn income for work and services within the KCMSD, effective September 25, 1987. The revenue generated from the surtax was to be used to retire capital improvement bonds which were authorized by the court.
3. An increase in the property tax of the KCMSD of \$1.95, making the total tax levy \$4 per \$100 assessed valuation through the 1991-92 fiscal year.
4. Issuance of \$150,000,000 of capital improvement bonds to be retired within twenty years from the date of issue. These bonds were to be paid off with the income tax surcharge.

In October 1987, the U. S. District Court ruled that the \$1.95 property tax levy rather than the income tax surcharge should be used to retire the capital improvement bonds. In addition, the court ruled that the income tax surcharge would remain in effect through the 1991-92 fiscal year and would be used to finance the desegregation costs other than capital improvement costs.

In February 1988, the U. S. District Court ruled that the state was entitled to a credit of \$7,427,638 on its capital improvement funding obligation as a result of the Eighth Circuit Court of Appeals ruling that \$37,000,000 in capital improvement costs should be shared equally by the state and the KCMSD. (As of the date of the court ruling, the credit due actually totaled \$8,093,054.) However, because of the KCMSD's lack of funds, the U. S. District Court further ruled that this credit could not be applied by the state until the court authorized it.

On July 25, 1988, the court ruled the interest expense on the \$27,000,000 of KCMSD bonds used to fund the district's share of capital improvements as ordered in the June 14, 1985, order, was not a liability of the state.

Funding for magnet transportation costs for the 1987-88 school year was granted in an August 29, 1988, ruling. The court ruled magnet transportation would not be funded through the state aid formula because this would only reimburse the KCMSD for 54 percent of its cost and the state's ordered share is 75 percent. In addition, because magnet transportation is inefficient, funding through the state aid formula would penalize the district. The court approved an incremental cost formula to compute the added cost of magnet transportation. This formula was later revised in April 1990.

In August 1988, the Eighth Circuit Court of Appeals reversed the income tax surcharge and ruled, in January 1989, that the surcharge should be fully refunded by the state. The appeals court further ruled that the district court could order the school district to increase its property tax levy, but modified the manner by which future tax increases would be set. In future years, the levy increase is to be set by the school district within a maximum approved by the district court.

In January 1989, the district court also changed the method of determining the state's contribution to desegregation. Essentially, once the KCMSD's desegregation funds available during the month have been depleted the state pays for all remaining expenses, even if they are for items that the KCMSD is to fully fund. As a result of this order, the state has paid an additional \$3,923,212 and \$1,814,368 during fiscal years 1990 and 1989, respectively, over what would have been paid based on the previously ordered cost-sharing percentages.

In October 1989, the U. S. District Court ruled the state was entitled to a credit of \$7,804,780 on its incremental magnet cost because these costs were base operating costs for 1986-87 year which had been incurred by the KCMSD without the court-ordered magnet programs.

In April 1990, the U. S. Supreme Court ruled the U. S. District Court did not have the authority to directly order an increased tax levy as was done in 1987, but could order the school district to levy a tax adequate to fund the court-ordered desegregation remedy. The case was remanded to the lower courts for further proceedings consistent with this opinion.

On October 31, 1983, Governor Christopher S. Bond signed Executive Order No. 83-14 creating the Metropolitan Desegregation Task Force consisting of the Attorney General, State Auditor, State Treasurer, Commissioner of Education, and Commissioner of Administration.

The main purposes of the task force are to determine whether desegregation expenditures are properly documented and accounted for, to determine if the school district is conducting desegregation programs in substantial compliance with applicable federal court orders, and to identify possible improvements in the operation of desegregation programs which would result in increased economy and efficiency.

## MANAGEMENT ADVISORY REPORT

ADDITIONAL ADVISORY



SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO  
KANSAS CITY, MISSOURI SCHOOL DISTRICT  
SUMMARY OF FINDINGS

1. Revenues (pages 16-18)

Various taxes were not accurately allocated to the Desegregation Fund resulting in \$824,006 due to the Desegregation Fund from the district's operating funds. In addition, certain revenue amounts were not included on the monthly drawdown reports.

2. Tax Rate Calculation (pages 18-19)

The district does not properly file the required tax rate calculation with the State Auditor's office.

3. Capital Improvement Program Payments (pages 19-21)

Several capital improvement expenditure processes are not adequately monitored to ensure only legitimate costs are paid.

4. Asbestos Contracts (pages 21-23)

The district has not applied for Environmental Protection Agency grants or loans which are available in conjunction with the Asbestos School Hazard Abatement Act of 1984. Adequate documentation was not maintained to support the payment of \$182,150 in asbestos expenditures. The district received \$237,968 in damages from asbestos abatement. This amount less attorney fees should be split between the Desegregation Account and the Operating Account.

5. Procurement Procedures (pages 23-25)

State and school district bidding requirements were not regularly being followed.

6. Project Management Team (pages 25-26)

Expenses totaling \$697,767 paid for the Project Management Team were not adequately documented or did not appear reasonable.

7. Magnet Transportation (pages 26-29)

Transportation billings and information for cabs and buses are not properly monitored.

8. Expenditure Procedures (pages 29-31)

District expenditure policies and procedures are not being consistently followed. Expenditures noted as being paid without adequate documentation or not appearing reasonable amounted to over \$475,000.

9. Budgets (pages 31-33)

In fiscal year 1990, the district overspent the court budgets by approximately \$848,000 without approval of the court. Other costs were charged when no budget had been approved.

10. Effective Schools (pages 33-37)

Effective Schools Program budgets are not adequately monitored for compliance with court orders.

11. Teacher Tuition Assistance Program (pages 37-38)

Payment plans were not established for all students in the program who defaulted. Teachers Tuition Assistance Program payments were not properly applied against one account.

12. Parents-As-Teachers Program (pages 38-39)

The state has funded the district's Parents-As-Teachers Program through both desegregation and state grant payments.

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO  
KANSAS CITY, MISSOURI SCHOOL DISTRICT  
MANAGEMENT ADVISORY REPORT

1. Revenues

The January 3, 1989, court order revised the district's procedures for obtaining state reimbursement. This order requires the district to pay all desegregation expenses incurred from available desegregation revenues, with any additional costs to be paid by the state. The district submits a monthly report to the state detailing the desegregation revenues and expenditures used to calculate the account withdrawal. The report also provides the amount required to replenish the account to the court-ordered cap of \$11,000,000.

A. The district incorrectly allocated certain fiscal year 1990 desegregation property taxes to the district's Operating Account.

- 1) Tax year 1989 property tax-related revenues such as payments in lieu of taxes, financial institution taxes, state railroad and utility taxes, County Stock Insurance Fund taxes, and condemnation taxes were not allocated to the Desegregation Fund in fiscal year 1990. Each of these revenues increased due to the additional \$1.95 desegregation tax levy established by U. S. District Court in 1987. Therefore, a proportionate amount should be allocated to the Desegregation Fund.

The U. S. District Court, in a November 1, 1990 court order, allowed the state a total credit for tax year 1989 of \$769,779 for state railroad and utility taxes, financial institution taxes, and County Stock Insurance Fund taxes. However, the Court suspended payment to the state until further review of the district's ability to repay this amount. The Court did not rule on payments in lieu of taxes or condemnation taxes. These tax year 1989 taxes totaled \$54,227.

The allocation errors noted above resulted in \$824,006 due to the Desegregation Fund from the district's operating funds for the year ended June 30, 1990. Thus, the state reimbursed \$824,006 for which desegregation revenues were available in fiscal year 1990. Since these amounts are due from operating funds to the Desegregation Fund, we question the state's payment of expenditures totaling \$824,006. This amount is included as nonprogram specific in the executive summary and Appendix A as it represents excess funding rather than program charges.

- 2) Our prior report noted improper allocation of tax year 1987 and 1988 local railroad and utility taxes. The district transferred \$460,546 of the \$987,906 due to the Desegregation Fund from the

Operating Fund during fiscal year 1990, leaving \$527,360 still remaining to be paid by the district to the state.

No action has been taken by the district regarding the repayment of this remaining amount. This amount will not be questioned in this report, as it was included in questioned costs of the prior audit.

- B. At year end, the district writes off checks outstanding which are over nine months old, and considers this a revenue on the drawdown report. Checks falling into this category totaled \$33,343 for fiscal year 1990; however, \$8,166 of this amount was not included as revenue on the monthly drawdown reports.

District personnel stated the \$8,166 had not been included on the monthly drawdown reports because they were waiting to notify the vendors that the checks were to be voided. As of January 1991, the district had not notified the vendors, nor credited the drawdown report.

As a result of this omission, the state has reimbursed \$8,166 for which desegregation revenues were available. We question the state's payment of expenditures totaling \$8,166. This amount is included as nonprogram specific in the executive summary and Appendix A as it represents excess funding rather than program charges.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A.1. Transfer the \$824,006 as soon as the court authorizes the payment.
2. Establish procedures to consistently and properly allocate to the Desegregation Fund, the desegregation-related tax revenues received. The \$527,360 previously credited to the district's Operating Fund should be transferred to the Desegregation Fund.
- B. Credit the state for \$8,166 in unreported desegregation revenues.

#### **AUDITEE'S RESPONSE**

- A.1. The court has only authorized a credit of \$769,779. The court did not rule on payment in lieu of taxes and condemnation taxes. The court ruled that only any incremental revenues from taxes should be credited to the Desegregation Fund. Payment in lieu of taxes is a negotiated amount so no incremental revenue would be generated as a result of the desegregation levy. A determination of incremental revenues resulting from condemnation taxes would have to be made by the parties as was done with the other taxes mentioned.
2. Local railroad and utility taxes are not properly allocated to the Desegregation Fund. The state has received money from the 1988 and 1989 taxes that were held as protested. A determination has not been made on which credits this



money will cover. The \$527,360 may be included as one of the credits the protested money covers.

- B. Checks are written off only after the vendor is notified to reduce the risk that the check will clear the bank after the adjustment is made. District personnel have not had time to notify all of the vendors. This \$8,166 represents a fraction of 1 percent of the state's reimbursement. Credit will be given on the drawdown report when the checks are written off. Current year write offs have been done on a more timely basis.

## 2. Tax Rate Calculation

The district's tax levy in tax year 1987 (fiscal year 1988) was established by the U. S. District Court. Levies in fiscal years 1989 and 1990 were set by the district and approved by the court. The total levy each year consisted of the district's normal "operating" funds levy and an additional desegregation levy. The district has allocated revenues from the total \$4 levy based on a \$2.05 levy for operating funds and a \$1.95 levy for the Desegregation Fund. However, the state constitution and laws put certain limits on the levy the district can have for operating purposes. These limits take into consideration the increase or decrease when determining the maximum tax rate the district can levy without voter approval.

To determine compliance with constitutional and statutory limits, the district is required to file certain information with the State Auditor's office annually to allow certification of its tax rate ceiling. The district has not been providing the necessary information, instead simply filing a statement of the court-ordered or approved levy.

1. Since the district tax rate is limited by the constitution and statute, any amount over the allowable ceiling should be allocated to the Desegregation Fund. Instead, the district maintains the \$2.05 and \$1.95 split for revenues generated by the \$4 levy. As a result, the desegregation and operating funds may not be receiving the proper amount of tax revenues. Only those amounts allowed by state law should be credited to the operating funds of the district.
2. When the desegregation levy is no longer required, the district will not know its legal tax rate ceiling. As a result, it will have to recreate the information that should have been filed annually or obtain voter approval of a new levy.

Based on information provided by the Jackson County Clerk's office, it appears changes in the district's assessed valuation and other factors have allowed the operating levies to remain at \$2.05 during fiscal years 1988 through 1990.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should annually file the required tax rate calculations with the State Auditor's office.

## AUDITEE'S RESPONSE

The district would be willing to discuss this matter with representatives of the state. This district will also discuss this matter with its legal counsel.

### **3. Capital Improvement Program Payments**

As part of the desegregation Capital Improvements Program (CIP), the Project Management Team (PMT) was established to assist the district in planning and monitoring the various CIP projects. While reviewing the procedures used by the PMT to monitor contracts and payments, the following concerns were noted:

- A. The PMT requires change orders for any modifications to original construction contracts. Proposed changes could add considerably to the cost, or delay completion of the desegregation projects.

During our review of contracts and change orders, the following observations were made:

- 1) PMT personnel estimate \$195,779 in change orders resulted from architectural errors or omissions for one project. For example, electrical power for numerous items was omitted, and mechanical controls at a greenhouse were not adequate as originally drawn. These change orders were necessary to complete the original planned project.

Additional costs due to architectural errors or omissions should be assessed from the architect or PMT personnel, or the district operating funds should pay for PMT oversights. District personnel stated they are in prearbitration with the architect to recover these cost.

We question the state's share of these costs, or \$97,890.

- 2) One change order, which totaled \$48,000, was for the construction of two concession stands. This change order was not due to a modification in the original plan nor because of changes necessary to meet building codes. Thus, it appears this change order is a separate project and not part of the original contract. As such, the additional work should have been bid to obtain the lowest price possible.

We question the state's portion of the \$48,000, or \$24,000.

- B. During the year ended June 30, 1990, the district used an emergency contract to hire personnel to move several schools during the summer, so that renovation or asbestos work could be performed. District policy allows the superintendent, in situations he deems an emergency, to make

purchases not exceeding \$5,000 without formal bidding or prior approval of the board. Because the deadline for regular board items was missed by two days, this contract was classified as emergency and, thus, not formally bid.

Adequate comprehensive planning and survey work would have allowed proper bidding to ensure the best price was obtained. This emergency contract totaled \$65,000. We question the state's portion, or \$32,500.

- C. The district's construction contracts contain a "liquidated damages" clause which calls for damages to be paid by the contractor when the contract's completion dates are not met.

During our review of construction projects which were to be substantially completed in fiscal year 1990, we noted that liquidated damages were not always settled timely when the contract's estimated substantial completion date was not met. For instance, one contract tested had actual completion dates for the main building, gymnasium, and swimming pool which were twenty, twenty-four, and seventy days later than the required completion dates. As of February 1, 1991, liquidated damages were to be assessed against the company in an upcoming change order, but amounts had not been withheld or collected within six months of the completion.

If the completion date is later than the contract date, liquidated damages should be charged on a timely basis to the contractor consistent with the liquidated damages clause in the contract.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A. Seek reimbursement from the applicable third parties and adjust the state drawdown report for the excess expenditures.
- B. Obtain information far enough in advance to ensure that "emergency contract" status can be avoided for moving personnel contracts. This allows more time for competitive bids to be obtained from perspective vendors.
- C. Seek liquidated damages on a timely basis from contractors, as called for in the contract.

### **AUDITEE'S RESPONSE**

- A.1. The district is still in prearbitration negotiations with the architect. If prearbitration negotiations are not successful in recovery, the district is prepared to file for arbitration to resolve the issue. Any costs recovered will be properly credited to the state.

2. This was a change order to the contract for stadium improvements at Southeast and East high schools. The concession stands in the change order were only for East. Change orders are an addition to the contract and do not require the project to go out for bid.
- B. The Board item requesting temporary summer hire was submitted in order to meet all of the critical time lines to close schools and relocate items for construction and asbestos removal. The use of temporary workers to perform the many tasks required was more economical and provided greater flexibility than using contract movers.
- C. The determination of liquidated damages is done as part of the close-out of the contract before the final payment is made. Any liquidated damages are usually processed as a change order resulting in the reduction of the contract amount and, therefore; reduces the final payment amount. The close out of contracts takes some time because of all of the final documentation required. For the contracts mentioned, there are sufficient funds being held as retainage to cover any amount of liquidated damages.

#### 4. Asbestos Contracts

The district has expended over \$3 million on asbestos consulting and abatement services during fiscal years 1989 and 1990. We noted the following concerns in our review of asbestos contracts:

- A. According to the Environmental Protection Agency (EPA) asbestos coordinator for the Kansas City region, the district is eligible for grants and loans available from the EPA in conjunction with the Asbestos School Hazard Abatement Act of 1984. These monies are provided to help schools with the costs of asbestos abatement. According to the EPA, the district has never applied for these grants/loans. District personnel indicated that there was no time during this period to prepare the required application materials. The district should, however, apply for these grants in an effort to lessen the amounts currently paid by both the district and the state for asbestos abatement.
- B. Expenditures for asbestos consulting and abatement services totaling \$182,150 were not proper as noted below:
  - 1) Documentation is not available to show that services totaling \$91,773 had been negotiated. Per district personnel, prior to fiscal year 1990, documentation of negotiation processes is not available.
  - 2) During fiscal year 1990, the district obtained information about various asbestos firms, and ranked these nine firms according to their qualifications. All contracts entered into were given to one of the nine firms; however, no documentation was maintained which specified why a particular firm was chosen for each project. We noted contracts of this type which totaled \$50,833.



- 3) Two contracts tested, totaling \$14,894, did not include an approval signature on the payment approval form.
- 4) The original bids for one asbestos removal contract, totaling \$24,650, could not be located.

Because adequate supporting documentation was not maintained, the district does not have assurance the best firm was selected. In addition, without proper approvals, the district cannot determine if the expenditure was proper. Therefore, we question the state's share of \$182,150, or \$91,075.

- C. The Johns-Manville Company was a large manufacturer of building products during the time that most of the district schools were built. Some of these buildings products were found to contain asbestos. As a result of the Johns-Manville bankruptcy proceedings, a trust was established to pay specified amounts to all asbestos property damage claimants who submit claims within the required time limits. The district lawyers filed claims on fifty asbestos abatement projects, which included information on the type of material removed, and the cost incurred in the asbestos process.

The district was awarded \$691,624 in damages from the Johns-Manville trust, of which \$237,968 was received in April 1990, leaving a balance of \$453,656 due. The \$237,968 recovery payments have been credited to the Operating Account to cover the \$93,005 in legal costs associated with the trust for fiscal year 1990, leaving a balance of \$144,963. The original asbestos payments, however, were split 50/50 by the Desegregation Account and the Operating Account based on the court-ordered percentage.

The net of the recovery payment less legal fees, or \$144,963, should be split between the Desegregation Fund and the Operating Fund based upon the court-ordered percentage of the original asbestos abatement payments. Therefore, we question the state's share of the balance of the Johns-Manville trust payment, less legal fees, or \$72,482.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A. Apply for asbestos abatement grants and loans available through the EPA.
- B.1.  
& 2. Maintain documentation to support the selection of asbestos firms for each project.
3. Ensure proper approval is included prior to payment of invoices.



4. Retain all bid documentation, including original bids, when selecting firms for asbestos removal.
- C. Credit the state's portion of recovery payments from the Johns-Manville Trust to the Desegregation Fund.

### AUDITEE'S RESPONSE

- A. The district will investigate the available grants and does plan to apply for the EPA grants when the next application period occurs.
- B.1.  
& 2. During fiscal year 1990, the district maintained documentation for the selection of firms to be used. The district will maintain documentation on why particular firms were awarded specific projects.
3. These payment approvals were processed prior to the adoption of formal CIP payment procedures which require the approval of the payment initiator. These procedures went into effect in early fiscal year 1990, and payments are now approved by environmental services or the PMT.
4. Procedures were implemented in March 1990, to ensure that all original bids are retained by environmental services and filed with the appropriate project records.
- C. The district's asbestos cost recovery efforts deal with more manufacturers and more legal and litigation support services costs than the Johns-Manville settlement. The district has been incurring legal and litigation support services costs since 1986 in connection with these efforts. At June 30, 1990, the total cost of these efforts exceeded \$3 million and the only recovery received was the \$237,968. While the cost of asbestos abatement was shared by the state, the district has funded all costs of the asbestos cost recovery effort from the district's Operating Fund. If total asbestos abatement cost recovery revenues exceed the total legal and litigation support services costs paid from the district's Operating Fund, the excess revenue will be credited to the state based on the same ratio as the abatement cost was paid.

### 5. Procurement Procedures

The district's purchasing guidelines are established by state law and board policy. Review of the district's bids and bidding procedures noted the following concerns:

- A. Land appraisal and negotiation services totaling \$112,397 were not properly documented. Documentation supporting how appraisal and negotiation companies were chosen could not be located.

According to Section 8.291, RSMo 1986,

"1. The agency shall list three highly qualified firms. The agency shall then select the firm considered best qualified and capable of performing the desired work and negotiate a contract for the project with the firm selected.

2. For a basis for negotiations the agency shall prepare a written description of the scope of the proposed services."

"Agency" is defined to include political subdivisions such as school districts.

Because no documentation was retained, the district may not have obtained the best possible price; therefore, we question the state's portion, or \$56,199.

B. District procedures require the buyer to contact a minimum of three suppliers for bids when the item to be purchased is under \$5,000.

1) Bid documentation could not be located for ten of thirty-two (31 percent) items tested including chairs, file cabinets, televisions, video equipment and exercise equipment. Expenditures with no bid documentation totaled \$239,386. We question the state's share of these expenditures, or \$173,875.

2) The district obtained bids in fiscal year 1989 for new furniture to be used in the renovated schools. The costs of the furniture were paid during fiscal year 1990. Proper documentation was not maintained to explain why the lowest bid was not accepted for these items. If the district accepts a bid that is not the lowest, written documentation should be maintained showing the reasoning for accepting the higher bid. Total costs associated with these expenditures was \$75,155. We question the state's share, or \$37,578.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

A. Properly negotiate all professional services and maintain documentation in accordance with state and district policies.

B. Properly bid all purchases and maintain documentation when accepting bids, especially when the lowest bid is not selected.

### **AUDITEE'S RESPONSE**

A. Fees paid for land appraisal and negotiation services were established three years ago and were based on market prices at that time. The district is still using these same rates. The district will maintain documentation on how particular jobs are assigned to approved firms.

- B.1. Bid documentation was not available on purchases made during the total period selected for review, due to the workload and limited time frame the Purchasing Department had to process documents. Since this audit, proper bidding documentation is being kept on all purchases, the time frames are sometimes short due to a lack of planning on the part of the requestor, and requests for an emergency purchase. The emergency purchase is only made if the proper documents are prepared and the procedures and policies are followed.
2. In reference to the documentation on bid awards, the bid tabulation sheets reference the recommended award for the lowest responsible and responsive bidder which is not always the lowest dollar amount.

### AUDITOR'S COMMENT

The bid tabulation sheet for this particular purchase did not indicate that the lowest bidder was considered to be nonresponsive. There was no documentation available to indicate why other than the low bid was accepted.

#### 6. Project Management Team

The KCMSD contracted with the PMT, a joint venture by two companies with construction expertise, to manage the capital improvements projects of the desegregation orders. The PMT also entered into separate contracts with two other firms to provide part of the professional services required. None of the four companies are allowed to participate directly in the construction projects.

During review of reimbursed PMT expenses, we noted the following:

- A. Supporting documentation for one PMT companies' labor expenditures for fiscal year 1990 could not be located. The labor expenditures totalled \$650,974. The KCMSD's standard policy requires supporting documentation before any expenditures are approved or authorized for payment, and that the documentation be retained to prove proper authorization.

The KCMSD stated they started requiring supporting documentation for labor charges from that PMT company starting June 1990.

Since no supporting documentation appears to exist for this expenditure, we are unable to determine the appropriateness of this charge to the desegregation program. Therefore, we question the state's share, or \$325,487.

- B. The court approved a position for the district for a Project Manager for Minority Business Enterprise/Women Business Enterprise Program (MBE/WBE). However, the PMT also has a MBE/WBE manager included in the fee the district paid for its services. In addition, this individual performed some duties for the capital improvements projects relating to accounting, administration, and analysis of CIP systems and processes, as well as the approved MBE/WBE duties.

As mentioned in our two prior reviews, this position appears duplicative; therefore, we question the state's share, or \$23,397, of the \$46,793 paid for salary and fringe benefits for this position.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A. Require supporting documentation for all PMT reimbursed expenditures.
- B. Review the need for a duplicative MBE/WBE manager position since this function is part of the PMT's contract services.

### **AUDITEE'S RESPONSE**

- A. The district has received supporting documentation for labor expenditures from the company since June 1990. Documentation is required for all reimbursed expenditures of the PMT.
- B. The district position of MBE/WBE is a position which was submitted to and approved by the court as part of the budget for implementation of the CIP. The court also approved the district's agreement with the PMT, including the provisions for direct PMT participation in encouraging and monitoring inclusion of MBE/WBE businesses in carrying out the CIP. The court and the DMC have been aware throughout the CIP implementation period that both the district oversight team and the PMT include specialists who have cooperated in development of implementation of an MBE/WBE program which has resulted in the KCMSD achieving more success. The state had ample opportunity to object to the position through filing with the court, and has not done so.

### **7. Magnet Transportation**

During fiscal year 1990, transportation costs for the court-ordered Magnet Transportation Program exceeded \$12 million. Our review of the various transportation costs noted the following concerns:

- A. As part of the court-ordered Magnet Transportation Program, the KCMSD uses cabs to transport students for regular, temporary, or emergency routes. A review of cab billings noted the following concerns:
  - 1) The cab companies submit invoices supported by vouchers to KCMSD Transportation Department (KCMSD-TD) for each cab route. Each voucher shows the student's name, address, assigned route number, and the mileage for the route. Cab vouchers are to be examined by the KCMSD-TD personnel to determine if the invoices are valid; however, the KCMSD-TD forwards the invoices for payment without verifying the routes charged to approved routes and examining mileage for reasonableness. For instance, we noted for three payments tested, the invoices did not support the payment made. While the KCMSD-TD personnel indicated the

volume of invoices makes review of each invoice too time consuming, periodic reconciliation of invoices to approved routes would help verify the reasonableness of the charges.

This was also noted in our prior report.

- 2) Two cab companies have reached a settlement with KCMSD for overcharges totaling \$222,381 for fiscal year 1989 cab services; the third cab company is currently in litigation. The overpayment by the KCMSD resulted from cab billings that were not for actual services rendered. The method of repayment by the cab companies involves lowering the current cab invoices by amounts specified in the court settlements. The KCMSD has not credited the desegregation draw reports for the state's portion of the total overcharge.

We question the state's portion of the cab company overcharges of \$222,381, or \$170,500, identified above. In addition, results of the settlement with the third cab company are being litigated currently. This settlement may reveal further questioned costs.

- B. The KCMSD also contracts with bus companies to transport students. The bus companies are required to report the number of students transported each day so the KCMSD can properly report the transportation numbers to the Department of Elementary and Secondary Education on the Application for State Transportation Aid (ASTA) form. Review of the student transportation reports noted the following:

- 1) Daily, each bus driver counts the number of students transported. These daily counts are listed on bus route sheets that show the bus number, bus route, day, and school name. One month of activity will be included on each sheet for that bus. The school district's transportation personnel list the information on the monthly sheets according to categories such as traditional, magnet, suburban, special education, handicapped, early childhood, and deaf/blind.

Several problems were identified during a test of the bus route listing prepared by the KCMSD-TD. Many routes were listed but had no original documentation completed by the bus driver. Several route sheets did not appear on the listing, and some routes were listed twice. There were various errors in the transfer of information from the original documentation prepared by the bus drivers and the listing prepared by the KCMSD-TD.

The student totals of the listing prepared by the KCMSD-TD are used to complete the ASTA. Overstating or understating the number of students on the ASTA could result in the KCMSD receiving an incorrect amount of state transportation aid.



- 2) The KCMSD-TD does not maintain documentation identifying the students who are eligible to be transported. No reconciliation can be performed between the KCMSD-TD eligibility records and the individual school listings of students who are transported to school.

The KCMSD should verify the validity of the numbers presented on the ASTA with district records. Section 163.161, RSMo Supp. 1990, indicates only certain types of programs are eligible for state aid. Improper information contained on the ASTA distorts the state aid that the KCMSD is eligible to receive.

These conditions were noted in our prior report.

**WE RECOMMEND** the district:

- A.1. Review, recalculate, and reconcile the supporting documentation for each cab company invoice.
2. Credit the draw report for the state's portion of \$170,500. In addition, the district should seek full reimbursement of the \$222,381 owed to KCMSD and pursue any repayments from overcharges from other cab companies.
- B.1. Accurately prepare the summary listing of all student counts that each bus driver sends to KCMSD-TD to ensure that student counts shown on the ASTA are correct.
2. Maintain a listing of eligible students with the corresponding buses, and reconcile the listing to the individual school listings maintained. Unusual fluctuations should be reviewed and reconciled to the student enrollment numbers and pupil attendance records.

**AUDITEE'S RESPONSE**

- A.1. The volume of the documentation of cab invoices is enormous. This documentation consists of approximately 1,200 sheets of paper per week because it is submitted on a per cab basis. The manpower is not available to recompute the invoiced amount from the supporting documentation. There is only one technician available to process the cab billings and that individual also has other duties.

The district will try to determine a way to use the information that is now being input into the Edulog System to assist us in reviewing invoices for reasonableness without having to recalculate the entire bill. Information is now being input into the system on which students ride cabs, the zone they are coming from and going to, and the cab company assigned. Once all of this information is input, we may be able to check with the system to determine the maximum number of students we should be billed for each company for each zone for regular routes and use that information to compare to the weekly billings.

Although the district understands the need to review these billings in detail, we do not have the resources necessary to review, recalculate, and reconcile the supporting documentation for each cab company invoice.

2. An adjustment is made each month to the drawdown report for the amount of the reduction in the current cab billing. The monthly adjustment method of payback was part of the legal settlement with the cab companies.

When setting up the procedure, a primary consideration was to account for this properly and accurately reflect expenditures. The relationship between mileage, ridership, and cost is important. Because the amount of the payback is material, showing the entire amount as a reduction in current expenditures would distort the costs by understating the cost of transportation.

- B.1. The district has implemented new procedures and is utilizing the computer to compile, summarize, and analyze ridership data. In fiscal year 1990, it was a goal to improve the process of accumulating and reporting ridership data. Many hours were spent setting up procedures and training district staff to accurately and efficiently compile the data. In recognition that the transportation office was understaffed, the court approved the funding to hire additional staff. The department was then able to assign, on a full time basis, one individual to be responsible for collecting, summarizing and reporting ridership counts.

The district works with eight bus yards, and three cab companies counting over 850 buses running more than 2,000 routes carrying over 20,000 riders in order to compile the ridership counts. Along with meeting the ordinary DESE reporting requirements, the district must accumulate and track additional ridership data for the Court, DMC, and the State.

It is our understanding that when the auditors tested March ridership data, the sampling was based on 100 percent of the records. Every driver record was reviewed and compared with district reports used to prepare the ASTA. The auditors found that the district had counted and reported 360 more riders than we could document. Of the 360, approximately 125 impact the district's expenditure reimbursement. This is a margin of error of approximately .7 percent.

2. The district's route observers now use listings from the Edulog System to verify with drivers the students riding their bus. The observers also meet the busses upon arrival at the schools, on a test basis, to verify the students who are riding.

## 8. Expenditure Procedures

During our tests of program and capital improvement expenditures, we noted the following areas of concern:

- A. Purchase orders totaling \$184,667 could not be found. District procedures require a purchase order and requisition be completed for each purchase. Purchase orders and requisitions provide evidence of approval being obtained before purchases are made. The district could not find purchase

orders for five of thirty-nine (13 percent) items tested. We question the state's share of expenditures totaling \$113,660 not questioned elsewhere in this report, or \$56,830.

- B. The district paid \$154,778 for 200 benches with vises. The district, however, received only 164 benches. In addition, the benches received could not be traced to the fixed asset records, so we could not determine if they were properly used for the desegregation program.

By paying in advance, the district has limited assurance the items will be received. This expenditure has been charged to the Desegregation Account although it is not yet a valid cost. District procedures require evidence of receipt of goods prior to payment; however, this requirement was not followed.

We question the state's share of these expenditures, or \$77,389.

- C. Twelve of thirty-five (34 percent) applicable items tested, totaling \$448,639, had purchase orders which were not signed and dated. Without a signature and date, it is impossible to tell if the items were properly authorized prior to being purchased and that the purchase order was prepared prior to the receipt of goods.

We question the state's share of \$208,658 which has not been previously questioned in this report, or \$152,017.

- D. The district's fixed asset records did not include two lease-purchase agreements, totaling \$1,729,932. Per district personnel, a fixed asset listing of lease-purchase items is maintained; however, this listing is approximately two years old, and has not been updated.

To ensure the accuracy of the district's fixed asset listing, adequate procedures and complete records are necessary to properly account for and control all fixed asset items purchased.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A. Ensure purchase orders are maintained to support purchases.
- B. Discontinue the practice of paying for items which have not been received.
- C. Ensure purchase orders are properly signed and dated prior to purchases being made.
- D. Establish adequate procedures and records to ensure lease-purchase agreements are properly accounted for on the fixed asset listing.

## AUDITEE'S RESPONSE

- A. The purchase orders that could not be found consisted of three from CIP and two from the purchasing department. The district is working to improve the filing and retention of CIP documentation. The two purchasing department purchase orders were payments on old purchase orders. One was a lease payment on equipment originally leased in January 1987, and the other was a payment on a purchase order for which the contract was issued in June of 1988. Because procedures for the filing and retention of records in the purchasing department were inadequate at the time these purchase orders were originally issued, they cannot be found.
- B. The district agrees payments should not be made for items that have not been received. The district is working to resolve this discrepancy.
- C. In past years, only the vendor copy of the purchase order was signed. At the recommendation of an audit finding, both the vendor and accounts payable copies are stamped with a signature to ensure an authorized purchase. Reference to the requesting requisition number is indicated on the purchase order as well as the name of the person providing the quotation and the person preparing the purchase order.
- D. These items will be added to the district's fixed asset listing. The district is currently working on procedures to ensure lease-purchase assets are recorded properly on fixed asset records.

### 9. Budgets

- A. In fiscal year 1990, the KCMSD overexpended the court-ordered budgets as follows:

<u>Program</u>	<u>Amount</u>
<u>1990 (Year 5)</u>	
District Communications	\$ 17,368
Teacher Salary	830,496

Prior to January 3, 1989, if the KCMSD expended more monies than the court approved budget, the district either requested more monies for the budget or paid for these expenses out of the operating budget. After the January 3, 1989, court order the district changed the reporting format from showing each program's budget as compared to actual expenditures to reporting total expenditures. Procedures have not been established to ensure any expenditures over court-ordered budgets are excluded from reimbursements claimed by the district and paid by the state.

These excess expenditures are the liability of the KCMSD, and we question, the state's share, or \$650,057.



- B. Differences exist between the budgeted amounts in the district's audited financial statements and its Budget Control Statements for fiscal year 1990. The budget amounts presented in the audited financial statements were those the district's independent auditors verified to court orders. Therefore, differences exist between the court approved budget and the district's internal budget documents. These differences are as follows:

	<u>Audit Report</u>	<u>District</u>	<u>Differences</u>
Project Management Team	\$ 13,485,814	11,106,893	2,378,921
Capital Facility Planners	10,785,111	10,705,560	79,551
Phase IV	58,779,259	58,765,314	13,945
Phase IV-B	59,253,303	60,932,305	(1,679,002)
Phase V	36,262,967	36,976,832	(713,865)

By having Budget Control Statements which do not agree with court-ordered budgets, the district has no controls established to ensure expenditures remain within the authorized limits.

- C. The district has established Program 683-Long Range Capital-CIP Staging to account for moving expenses required due to asbestos work, and modifications of alternative sites used temporarily during current construction projects. The KCMSD is seeking 50 percent reimbursement for the Program 683 expenditures which totaled \$223,266. As of February 1991, a court order has not yet been issued requiring the state to pay these costs. Even without approval, the district is charging these costs to the Desegregation Fund; therefore, we question the state's share, or \$111,633.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- Ensure excess expenditures are charged to the operating budget unless court approval has been obtained for the increased desegregation budget.
- Reconcile its internal budget statements to court orders at least annually.
- Discontinue the practice of claiming reimbursement from the state for expenditures that have not been approved as Desegregation Fund costs.

#### **AUDITEE'S RESPONSE**

- A. The \$17,368 spent for District Communications should have been charged to the communications line within the Long Range Magnet Program. There were sufficient funds in that budget to cover those expenditures.

On September 16, 1987, the court made available "... \$7.147 million for each fiscal year through 1991-1992 to fund teacher salary increases ..." This amount was lowered by the court in a July 25, 1988, court order by \$2 million. The



reduction was an estimated amount. It was subsequently determined by the district that the reduction in the amount budgeted should have been only \$1.3 million. Because of these differences, budget amounts for the teacher salary increases were presented to the DMC.

On April 4, 1991, the DMC ruled that the reduction ordered by the court was only an approximation and that the district's documentation of the actual cost should be accepted. The DMC approved a motion to reduce the budget by approximately \$1.3 million rather than \$2 million. They further recommended that the budget be adjusted and approved approximately \$628,958. The remaining amount, \$201,538 will be offset by credits due to the district such as late activity transportation.

- B. The district is preparing to make the adjustments necessary to adjust our budgeted amounts to the court orders. We will also reconcile budgets to court orders for fiscal year 1991, before the year end.
- C. Program 683 was established for the fiscal year 1991 staging budget, and has been approved by the DMC and the board. Upon advice of legal counsel, the district drew the reimbursement for staging expenditures from the state as the expenses were incurred. The program will be presented to the court for approval when final costs are obtained in the coming months.

10. Effective Schools

The Effective Schools Program ordered by the court is used to provide funds for items such as mastery learning, elementary counselors and home school liaisons, transition rooms, precollegiate curriculum, alternative secondary school units and arrangements, occupational and career education computer labs, and computer assisted and managed instruction. Decisions on how to spend these funds are determined by teachers, parents, community members, principals, and school advisory committees. The court approved Effective Schools Program budgets for the 1989-90, 1988-89, 1987-88, and 1986-1987 school years totaled \$7,125,000, \$6,680,000, \$6,550,000, and \$5,275,000 respectively. The orders provided \$100,000 to \$125,000 to each school with a minority enrollment exceeding 90 percent, while each of the remaining schools received \$75,000 to \$100,000.

- A. For some schools, the Effective Schools Program budgets were exceeded as follows:

<u>Budget Year</u>	<u>School</u>	<u>Excess Expenditures During Fiscal Year 1990</u>
1989-90		
Year 5	Attucks	\$ 19,949
	C.A. Franklin	1,471
	James	406
	G. Melchor	5,070
	M.H. Weeks	3,454
	Southeast Junior	<u>18,483</u>
Total 1989-90		<u>48,833</u>
1988-89		
Year 4	Border Star	21,831
	C.A. Franklin	20,959
	D.A. Holmes	1,553
	D.H. Korte	2,397
	H.C. Kumpf	2,273
	Moore	2,373
	Bingham Junior	3,211
	Southeast Junior	250
	Northeast Senior	1,751
	Van Horn Senior	<u>1,776</u>
Total 1988-89		<u>58,374</u>
1987-88		
Year 3	Wheatley	<u>16</u>
Grand Total		<u>\$ 107,223</u>

Because these expenditures made during fiscal year 1990 were in excess of the court-ordered amounts, we question the state's portion, or \$82,208.

- B. A majority of schools did not spend all of their Effective School's Program monies for the 1989-90 school year. While \$7,125,000 was approved by the court, only \$6,271,723 was spent by June 30, 1990, leaving 12 percent unspent. This includes twelve schools which have spent less than 75 percent of their budgets.

Although not spending all available funds may be commendable, such underspending may also reflect poor budget and planning procedures. The individual schools do not submit their final plans to the school board for approval until after the court has approved the district's effective schools budget request. A more effective budget procedure would be for the schools to fully develop and finalize their individual plans before the

overall budget is submitted to the court for approval. Budget requests would then be only for the amount actually needed to implement the overall plan for the year.

- C. Schools were still spending Effective Schools Program monies budgeted for the 1988-89 and 1987-88 school years during the year ended June 30, 1990. During fiscal year 1990, another \$598,014 of fiscal year 1989 funds was used. During the years ended June 30, 1990 and 1989, another \$411,110 of fiscal year 1988 funds were spent.

These situations indicate the individual effective schools plans are not adequately planned and cannot be accomplished and implemented in one year. At the end of the school year, every school should evaluate its plan, identifying reasons for significant budget variances. This evaluation should be documented. Underspent budget amounts should not simply be used in the next fiscal year. Instead, each year's plan should be separately budgeted so expenditures for each fiscal year can be more effectively planned, controlled, and evaluated.

- D. One effective school payment, totaling \$32,220, was made from a copy of the invoice, not the original invoice. All payments should be supported by original invoices. By paying from invoice copies, the district increases the risk of making duplicate payments. We question the state's share, or \$24,703.

**WE RECOMMEND** the district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A-C. Develop specific guidelines for planning, using, and evaluating budgets for the Effective Schools Program.
- D. Repay these desegregation charges from the Operating Fund and ensure only adequately supported expenditures are charged in the future.

### **AUDITEE'S RESPONSE**

Beginning with the 1988-89 school year, the district provided substantial additional supervision and assistance at the central office level to help schools plan and monitor the expenditure of effective schools funds and school progress toward improved student achievement. The district implemented an even more detailed activity progress system for monitoring and evaluating the implementation of the school improvement plans for the 1989-90 school year. The system determines the progress of activities and the appropriateness of expenditures in greater detail than in the past. Those activities that reflect the most progress are continued into the next year's plan. Because of this approach, the schools are not implementing a "new" plan each school year, but have a plan that is a continuation and refinement of the long range objective of effective schools which is to raise test scores.

The district believes that guidelines for planning, using, and evaluating the budgets are in place and that expenditure of effective schools monies should not be evaluated only on the basis of budget dollars used, but instead should be reviewed for their appropriateness and alignment with the prescribed instructional activities in the plans.

- A. The excess expenditures cited by the state for the 1987-88, 1988-89, and 1989-90 school years are less than 1 percent of the effective schools budget per year. The district has implemented accounting controls and procedures to eliminate over expenditures in future years. For example, the district has implemented a position control system. This system will allow for more accurate accounting of all authorized positions and any associated vacancies in future years. Also, as of April 1991, the district requires all service agreements in excess of \$5,000 to go through the encumbrance process, thus decreasing the possibility of over expenditures.
- B. The state's report indicates that the majority of schools did not spend all of their Effective Schools Program monies for the 1989-90 school year. A comparison of the different Effective Schools Programs, at their respective year ends, shows each program year from June 30, 1987, to June 30, 1989, reflected between 20 and 23 percent unexpended at June 30. At June 30, 1990, the Year V program for effective schools reflected 12 percent of the budget was unexpended. If unexpended funds are a measure of program success, there was a measurable improvement during the 1989-90 school year.

The state's report makes note that twelve schools spent less than 75 percent of their budgets. Of those schools, two were open for the first time in the 1989-90 school year and their effective schools site plans were not approved until December 14, 1989, thus impeding their ability to spend all funds available. This means that 61 (87 percent) of the schools expended greater than 75 percent of their budgets and 2 (3 percent) of the schools were impeded by late program approvals. By January 31, 1991, only nine schools had expended less than 75 percent of their Year V program money.

The effective schools budget and planning procedures are as prescribed by the court. The process calls for site based planning after the court has approved a requested dollar amount for each school, based on minority enrollment percentages. The procedure makes use of the most current student test information. The site plans for the next year are continually refined throughout the current year with an eye toward the current year's projected test scores. Once current year test scores are announced, the following year's site plans are finalized. If actual and anticipated test scores vary significantly, the site planning team revises the plan/budget accordingly. This procedure assures that the plans are based on the most current test information which is critical to the overall objective of the program which is to raise test scores.

- C. There are always expenditures made after the end of each fiscal year. Encumbrances outstanding at June 30, do not become expenditures until after the end of the fiscal year. At June 30, 1990, 88 percent of the court approved funding for the year V program was expended.

of participants. This later reimbursement caused the excess in the Special Revenue PAT Program. In July 1990, the district's general ledger section began monitoring receipts related to the previous fiscal year. This allows us to detect revenues that are received after the year end and to make appropriate transfers. The district was aware this transfer needed to be made. In the future, we will try to make these adjustments in a more timely manner.



**FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS**

THE ANDERSON PHOTOGRAPHY

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO  
KANSAS CITY, MISSOURI SCHOOL DISTRICT  
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Kansas City, Missouri School District (KCMSD) on recommendations made in the Management Advisory Report (MAR) of our prior report issued for the year ended June 30, 1989. The prior recommendations which have not been implemented, but are considered significant, have been repeated in the current MAR. Although the remaining unimplemented recommendations have not been repeated, the KCMSD should consider implementing these recommendations.

1. Revenues

A. The district incorrectly allocated certain desegregation property taxes to the district's Operating Account. The allocation errors resulted in \$5,202,675 due to the Desegregation Fund from the district's operating funds for the two years ended June 30, 1989. Since these amounts were due from operating funds to the Desegregation Fund, we questioned the state's payment of expenditures totaling \$5,202,675.

B. The district's tax levy in tax year 1987 (fiscal year 1988) was established by the U. S. District Court. Levies in fiscal years 1989 and 1990 were set by the district and approved by the court. The state constitution and laws put certain limits on the levy the district can have for operating purposes. To determine compliance with the constitutional and statutory limits, the district was required to file certain information with the State Auditor's office annually to allow certification of its tax rate ceiling. The district did not provide the necessary information, instead simply filed a statement of the court-ordered or approved levy.

As a result, the desegregation and operating funds may not have received the proper amount of tax revenues and when the desegregation levy is no longer required, the district will not know its legal tax rate ceiling.

C. The district's tax rate was also limited by "Proposition C" which provided sales tax revenue to school districts in exchange for property tax reductions. The district was required to file certain information with the Department of Elementary and Secondary Education (DESE) which reviewed its Proposition C rollback for compliance with state law. According to DESE's review, in fiscal year 1989 a 40-cent rollback was required. Based on its 39-cent reduction, the district collected \$342,627 in excess property tax revenues.

The district's assessed valuation increased sufficiently in fiscal year 1990 for the 39-cent levy rollback to recover the prior year's excess plus the current year's required reduction. However, without calculating the statutory rollback annually, the district could not know what the tax rate ceiling was for its operating funds.

- D. Manual check expenditures charged on the monthly report did not agree with the district's manual check registers.

Recommendation:

The district meet with representatives of the state to discuss the proprietary and allowability of the aforementioned items. Furthermore, the district should:

- A. Establish procedures to consistently and properly allocate desegregation-related tax revenues received to the Desegregation Fund. The \$5,202,675 previously credited to the district's Operating Fund should be transferred to the Desegregation Fund.
- B&C. Annually file the required tax rate calculations and determine what portion of its levy can legally go to the operating funds and what portion remains for the Desegregation Fund.
- D. Ensure all monthly expenditure reports are accurate, including the manual checks charged to desegregation programs.

Status:

- A. Partially implemented. Allocation percentages appeared appropriate. Local railroad and utility taxes and interest on current and back taxes are now being allocated to the Desegregation Fund, and a transfer to the Desegregation Fund was made for a portion of the questioned local railroad and utility amount. However, state railroad and utility, payments in lieu of taxes, county stock and condemnation taxes were not allocated to the Desegregation Fund during fiscal year 1990. See MAR No. 1.
- B&C. Partially implemented. Although no specific problems were noted with the Proposition C rollbacks, the annual filings were not made for tax rate determination. See MAR No. 2.
- D. Implemented.

2. Capital Improvement Program Payments

- A.1. The district entered into a contract for asbestos removal totaling \$348,000. The contractor was allowed to begin construction before a performance bond was posted. In July 1988, the contract was terminated due to the contractor's failure to perform. Two other contractors completed the job at cost of \$311,590. As a result of inadequate contractor performance, \$89,590 more was paid for the job than was originally bid. Also, the delay in completing the asbestos removal resulted in an additional \$13,875 being paid by the district to the general contractor. Excess payments in fiscal year 1989 totaled \$103,465. We questioned the state's share of these costs, or \$51,733.

2. An asbestos payment totaling \$15,603 did not appear reasonable. This cost was for additional asbestos work because of the original contractor's nonperformance. We questioned the state's share of \$15,603, or \$7,802.
- B. Each month, the Project Management Team (PMT) reconciled each vendor's cumulative payments in the invoice files to the cumulative payments charged on the General Ledger. For ten projects we reviewed, the differences identified by PMT were not corrected on the General Ledger. On the General Ledger three projects were overstated by \$132,416. The district claims reimbursement from the state based on the General Ledger amounts. We questioned the state's portion of the overreported charges, or \$66,208.
- C.1. A general contractor incurred additional costs, overhead, and overtime because of substandard asbestos work at one school.
2. Five change orders totaling \$9,012 resulted from architectural errors or omissions, or oversights by PMT personnel.
3. One \$1,523 change order included additional work due to vandalism at a school. Any additional cost attributable to another party should not be paid by the state. As a result, we questioned the state's share of these costs, or \$58,811.
- D. In two instances, the district paid more for property than the appraised value. Apparently the \$11,675 in additional costs resulted from negotiations which occurred much later than the appraisal dates. We questioned the state's share, or \$5,838.

Recommendation:

The district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A.1. Ensure the performance bond is posted before allowing any contractor to begin work.
2. Obtain reimbursement from the original contractor for additional costs due to nonperformance.
- B. Correct the differences identified between the General Ledger and the invoice files.
- C.1. & 2. Seek reimbursement from the applicable third parties and repay the overclaimed expenditures.
3. Require costs incurred as the result of vandalism be appropriately charged to the district's insurance or operating funds.



D. Make timely offers to property owners after obtaining property appraisals.

Status:

A.1.

&

C.3. No additional instances of noncompliance were noted during the current review.

A.2.

&

C.1. Partially implemented. A claim has been filed by the district against the original contractor's surety company.

B&D. Implemented.

C.2. Not implemented. The district has no plans to seek reimbursement. For a similar item, see MAR No. 3.

3. Bidding Procedures

A.1. Asbestos consulting services totaling \$1,430,552 were not properly obtained. Documentation was not available to show these services were either bid or properly negotiated. We questioned the state's portion of these expenditures, or \$715,276.

2. Bid documentation could not be located for nineteen of twenty-five items tested. We questioned the state's portion, or \$343,000.

3. Land appraisal and negotiation services totaling \$43,751 were not properly bid as required by district procedures. Documentation supporting how appraisal and negotiation rates were established could not be located. We questioned the state's paid portion, or \$21,876.

4. The district did not retain supporting bid documentation on all three asbestos contracts tested, which totaled \$401,986. We questioned the state's portion of \$200,993.

5. Adequate documentation was not maintained for the negotiation process used to select architectural firms. Payments totaled \$734,366, and we questioned the state's share of these costs, or \$367,183.

B. Because of poor planning and poor communications between district officials and school site managers, the district used emergency contracts to move and store property of eight schools during renovations, asbestos abatement, or moves to new locations. We questioned the state's portion of \$220,836, or \$110,418.

C. The district obtained bids for new furniture to be used in the renovated schools. Proper documentation was not maintained to explain why the

lowest bid was not accepted. Costs were not questioned since the expenditures were made in fiscal year 1990.

- D.1. The district hired two non-Missouri asbestos consulting firms rather than Missouri firms. No documentation was maintained to justify the selection of non-Missouri firms. Expenditures totaled \$58,270 to these firms.
- 2. The district paid \$7,943 to a non-Missouri land appraiser and negotiating firm. Again, documentation was not maintained to justify the use of a non-Missouri firm. These costs were previously questioned in the report.

Recommendation:

The district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A. Properly bid and negotiate all professional services and maintain bid documentation in accordance with state and district policies.
- B. Obtain information from school districts far enough in advance to ensure that "emergency contract" status can be avoided for moving and storage contracts. This allows more time for competitive bids to be obtained from perspective vendors.
- C. Maintain all documentation when accepting bids, especially when the lowest bid is not selected.
- D. Contract with Missouri firms in accordance with Section 171.181, RSMo Supp. 1989.

Status:

- A. Not implemented. See MAR Nos. 4 and 5.
- B. Not implemented. See MAR No. 3.
- C. Not implemented. See MAR No. 5.
- D. Implemented.

4. Project Management Team

- A. Supporting documentation for a PMT expenditure of \$206,434 could not be located. We questioned the state's share, or \$115,314.
- B. The court approved a position for the district for a Project Manager for Minority Business Enterprise/Women Business Enterprise Program (MBE/WBE). However, the PMT also had a MBE/WBE manager included in the fee the district paid for its services. This position appeared

duplicative; therefore, we questioned the state's share, or \$23,931 of the \$47,862 paid for salary and fringe benefits for this position.

Recommendation:

The district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A. Obtain complete documentation to support this expenditure. In addition, the district should ensure invoices, purchase orders, and related documents are retained and filed in an accessible manner.
- B. Review the need for duplicative MBE/WBE manager position since this function is part of the PMT's contract services.

Status:

Not implemented. See MAR No. 6.

5. Magnet Transportation

- A.1. Cab vouchers were to be examined by KCMSD Transportation Department (KCMSD-TD) personnel to determine if the invoices were valid; however, KCMSD-TD forwarded the invoices for payment without verifying the routes charged to approved routes and examining mileage for reasonableness.
2. Two taxi cab invoices were paid twice by KCMSD which caused a total overpayment of \$4,070. We questioned the state's portion, or \$2,274.
3. The district's attorney hired an independent accounting firm to review the taxi cab billings. The independent accountant's review revealed the following concerns:
  - Student pupil counts did not agree to the attendance records.
  - Inaccurate and inconsistent amounts were charged to KCMSD for routes which had absent students.
  - Inconsistent mileage was charged to KCMSD for the same routes on different days.
  - Mechanical errors were made in the calculations on the taxi cab vouchers.
- B.1. The KCMSD-TD did not properly review the pupil count summary sheets to ensure the student counts were properly classified. Improper classifications could have affected the formula that determined the amount of state transportation aid paid to the district.
2. For each bus, the bus companies prepared a summary sheet which showed the pupil count, ride time, and the number of miles traveled for each route during the semester. The district used the summary sheets to accumulate

mileage on the route approval forms which were the basis for mileage on the Application for State Transportation Aid (ASTA). Many discrepancies were found between the summary sheets and the route approval forms.

3. Review of the reported ride times and the miles traveled sometimes appeared unreasonable. It appeared that either the information on the route approval forms was inaccurate, or the bus driver were exceeding speed limits.
4. The number of students transported according to the pupil count summary sheets during fiscal year 1989 fluctuated greatly within each category. Without a listing of eligible students, the KCMSD-TD was unable to determine if the fluctuations in students transported were valid or if ineligible students were being transported.

Recommendation:

The district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A.1. Review, recalculate, and reconcile the supporting documentation for the vouchers with the attendance records.
2. Compare the cab vouchers with the cab billings to ensure all expenditures relate to actual approved routes traveled and seek reimbursement for the duplicative payments of \$4,070.
3. Pursue any overpayments from the cab companies and the state should receive a proportionate share of any funds recovered.
- B.1. Recalculate pupil counts by category to ensure they can be traced to the ASTA.
2. Accurately prepare and reconcile the summary sheets, Route Approval Forms, and the ASTA.
3. Monitor the reported bus speeds to determine whether the miles driven in the time claimed are reasonable and safe.
4. Maintain a listing of eligible students with the corresponding buses, and reconcile the listing to the individual school listings maintained. Unusual fluctuations should be reviewed and reconciled to the student enrollment numbers and pupil attendance records.

Status:

- A.1.&
- B.4. Not implemented. See MAR No. 7.
- A.2,3,

B.1,  
& 3. Implemented.

B.2. Partially implemented. The district currently prepares summary sheets; however, they are not always accurate. See MAR No. 7.

6. Expenditure Procedures

A.1. The original contract for one individual in the Teacher Tuition Reimbursement Program (TTAP) program, which authorized \$5,000 in reimbursement, was not located. We questioned the state's portion, or \$1,291.

2. One individual participating in the TTAP quit the program and was required by the contract to reimburse the KCMSD for any tuition related to incompleting courses. The district could not locate documentation of having received reimbursement due, totaling \$298. We questioned the state's share, or \$166.

B. Expenditures of \$1,066,820 were made based on copies of invoices. We questioned the state's portion of the \$4,111 not questioned elsewhere, or \$2,296.

C. Supporting documentation of expenditures were not always found.

1) A firm billed the district an additional \$4,998 due to a "price increase." Adequate supporting documentation was not attached. We questioned the state's portion, or \$2,792.

2) Purchase orders were not found for seventeen of thirty-one items tested. These items totaled \$360,293. We questioned, the state's share, or \$197,810.

3) Canceled checks were not located for eight of seventy-four items tested which totaled \$175,843. We questioned the state's share of expenditures not previously questioned, or \$60.

D. The district did not always document whether expenditures which totaled \$390,933 were properly approved. We questioned the state's share of the costs, or \$197,655, which had not been questioned previously for other reasons.

E. Two of six items tested which totaled \$53,800, had purchase orders which were signed, but not dated. We questioned the state's share, or \$30,053.

F. Eight of ten fixed assets items could not be traced from purchase orders and invoices to the district's fixed asset records. Due to difficulty in locating tag numbers for the assets purchased, we were unable to physically locate the ten items. The total cost of the purchases was \$14,900. We questioned the state's portion, or \$8,323.



G. The district paid \$320,000 for 1,000 computer network interface cards. The district, however, received only 500 network interface cards, with the remaining 500 to be received in September 1990. The costs of which the state's share was \$9,376, were previously questioned.

H. The district recruited several teachers from South America to teach in magnet schools. The district told these teachers no state or federal taxes would be withheld from their pay checks because the United States had a reciprocal tax treaty with their countries; however, it was discovered there was no reciprocal tax treaty with their countries. The checks, were drawn from the Desegregation Fund instead of the board-approved Operating Fund. When this error was brought to the attention of the district, a correcting journal voucher was issued in May 1990.

In addition, the district hired a tax firm to prepare the income tax forms for the teachers. The tax preparation fee of \$3,465 was charged to the Desegregation Fund. After we made the district aware of the situation, a correcting journal voucher to adjust this expenditure to the Operating Fund was prepared in May 1990, and a credit was subsequently reflected in determining the state's share of expenditures.

I. For five of seventeen travel expenses examined, supporting documentation such as invoices, checks, and travel reconciliation, were not located. We questioned the state's portion of \$7,678, or \$4,289.

#### Recommendation:

The district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

A.1. Maintain all supporting documentation pertaining to the TTAP. In addition, the district should seek reimbursement of \$2,312 from the individual.

2. Seek reimbursement from the individual, or provide documentation that the amount has been paid.

B. Make payments based upon original invoices only.

C. Require adequate supporting documentation to support all purchases and retain canceled checks in a manner that allows later retrieval.

D. Require proper approval for all expenditures.

E. Ensure purchase orders are properly signed and dated prior to purchases being made.

F. Establish adequate procedures and records to ensure fixed assets are properly accounted for and controlled.

- G. Discontinue the practice of paying for items which have not been received.
- H. Ensure nondesegregation expenditures are charged to the Operating Fund in the future.
- I. Retain all travel expense documentation.

Status:

A.1.  
& I. Implemented.

A.2. Implemented.

B. Not implemented. See MAR No. 10.

D,E,  
F&G. Not implemented. See MAR No. 8.

C. Partially implemented. Canceled checks were properly retained; however, other supporting documentation was not always retained. See MAR No. 8.

H. No such instances of noncompliance were noted during the current review.

7. Budgets

A. In fiscal year 1989, the KCMSD overexpended the court-ordered budgets for fiscal years 1989 and 1988. The excess expenditures of \$961,357 were a liability of the KCMSD, and we questioned the state's share, or \$537,014.

B. Differences existed between the budgeted amounts in the district's audited financial statements and its Budget Control Statements for fiscal year 1989. The budget amounts presented in the audited financial statements were those the district's independent auditors verified to court orders. Therefore, differences existed between the court approved budget and the district's internal budget documents.

C. The KCMSD was seeking 50 percent reimbursement for Program 672-Long-Range Capital CIP Staging expenditures which totaled \$2,031,171 during fiscal year 1989; however, a court order had not yet been issued requiring the state to pay these costs. We questioned the state's share, or \$1,015,586.

D. The KCMSD approved and made expenditures for fiscal year 1990 programs prior to July 1, 1989, the beginning of the fiscal year.

Recommendation:

The district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A. Ensure excess expenditures are charged to the operating budget unless court approval has been obtained for the increased desegregation budget.
- B. Reconcile its internal budget statements to court orders at least annually.
- C. Discontinue the practice of claiming reimbursement from the state for expenditures that have not been approved as Desegregation Fund costs.
- D. Discontinue charging expenditures to the next fiscal year unless documentation is retained to support the validity of the charges.

Status:

A-C. Not implemented. See MAR No. 9.

D. Implemented.

8. Cash and Investments

- A. The district invested the state desegregation monies in repurchase agreements which were not in the name or control of the district or its independent agent.
- B. The district obtained bids for its operating funds' investments, but bids were not solicited from brokerage firms before investing state desegregation monies in repurchase agreements.

Recommendation:

The district meet with representatives of the state to discuss the propriety of the aforementioned items.

Status:

Implemented.

9. Effective Schools

- A. For some schools, the Effective Schools Program budgets were exceeded by a total of \$35,196. Because these expenditures made during fiscal year 1989 were in excess of the court-ordered amounts, we questioned the state's portion, or \$19,660.
- B. A majority of schools did not spend all of their Effective Schools Program monies for the 1988-89 school year. This included twenty-seven schools which had spent less than 75 percent of their budgets.

- C. Schools were spending Effective Schools Program monies budgeted for the 1987-88 and 1986-87 school years during the year ended June 30, 1989.
- D. The district made several untimely payments on court-ordered 1986-87 fiscal year invoices. In addition, receipt of goods was not indicated on any of these six invoices, which totaled \$8,637. We questioned the state's share, or \$4,825.

Recommendation:

The district meet with representatives of the state to discuss the propriety and allowability of the aforementioned items. Furthermore, the district should:

- A-C. Develop specific guidelines for planning, using, and evaluating budgets for the Effective Schools Program.
- D. Repay these desegregation charges from the operating fund and ensure only adequately supported expenditures are charged in the future.

Status:

- A-C. Not implemented. See MAR No. 10.
- D. Not implemented. Although not repeated in the current report, the KCMSD should consider implementing these recommendations.

10. Parents-As-Teachers Program

The KCMSD allocated the PAT Program expenses to the related desegregation program although \$12,267 was available in the Special Revenue PAT Fund at June 30, 1989. As a result, the state paid for PAT expenses twice. We questioned the state's share, or \$6,852. The district corrected the error in June 1990 after we brought it to their attention.

Recommendation:

The KCMSD should ensure that state reimbursements in the Special Revenue Fund are used to cover PAT expenses before charging expenses to the desegregation program.

Status:

Partially implemented. See MAR No. 12.

## APPENDICES



## Appendix A

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT  
CUMULATIVE SCHEDULE OF BUDGETED AND ACTUAL DESEGREGATION EXPENDITURES  
THROUGH JUNE 30, 1990

UNAUDITED

Program	Budget	Recorded Expenditures			Questioned Costs			Allowable Expenditures (Over) Under Budget	
		Prior Years	Year Ended June 30, 1990	Total	Prior Years	Year Ended June 30, 1990	Total		
Year One (June 14, 1985, court order):									
Triple A achievement	\$ 4,738,500	4,040,142	-0-	4,040,142	180,787	-0-	180,787	3,859,355	879,145
Reduced class size	2,000,000	1,969,497	-0-	1,969,497	1,035,578	-0-	1,035,578	933,919	1,066,081
Summer school	641,550	631,365	-0-	631,365	-0-	-0-	-0-	631,365	10,185
Full day kindergarten	1,092,000	993,409	-0-	993,409	-0-	-0-	-0-	993,409	98,591
Before/after school	104,400	74,123	-0-	74,123	-0-	-0-	-0-	74,123	30,277
Early childhood	894,909	416,409	-0-	416,409	-0-	-0-	-0-	416,409	478,500
Effective schools	4,025,000	3,578,111	-0-	3,578,111	1,048,496	-0-	1,048,496	2,529,615	1,495,385
Magnet planning	85,000	78,527	-0-	78,527	-0-	-0-	-0-	78,527	6,473
Staff development	500,000	514,827	-0-	514,827	-0-	-0-	-0-	514,827	(14,827)
Public information	30,000	12,358	-0-	12,358	-0-	-0-	-0-	12,358	17,642
Capital improvements (1)	37,000,000	37,053,935	15,797	37,069,732	1,142,634	-0-	1,142,634	35,927,098	1,072,902
Total Year One	51,111,359	49,362,703	15,797	49,378,500	3,407,495	-0-	3,407,495	45,971,005	5,140,354
Year Two (June 16, 1986, court order):									
Triple A achievement	8,790,697	7,356,460	-0-	7,356,460	497,708	-0-	497,708	6,858,752	1,931,945
Reduced class size	4,000,000	3,548,273	-0-	3,548,273	488,749	-0-	488,749	3,059,524	940,476
Summer school	1,196,000	890,475	-0-	890,475	23,538	-0-	23,538	866,937	329,063
Full day kindergarten	1,594,496	1,517,759	-0-	1,517,759	219,437	-0-	219,437	1,298,322	296,174
Before/after school	104,400	90,041	-0-	90,041	1,380	-0-	1,380	88,661	15,739
Early childhood	1,551,786	1,463,975	-0-	1,463,975	203,495	-0-	203,495	1,260,480	291,306
Effective schools	5,275,000	4,564,949	-0-	4,564,949	357,237	-0-	357,237	4,207,712	1,067,288
1986-87 Magnets	12,972,727	12,716,394	-0-	12,716,394	1,517,541	-0-	1,517,541	11,198,853	1,773,874
Magnet transportation (2)	-0-	1,255,956	-0-	1,255,956	1,247,793	-0-	1,247,793	8,163	(8,163)
Long-range magnets	8,315,936	4,924,197	-0-	4,924,197	3,812,201	-0-	3,812,201	1,111,996	7,203,940
Public relations	30,000	33,550	-0-	33,550	431	-0-	431	33,119	(3,119)
Capital improvements	13,787,554	14,729,154	351,708	15,080,862	553,045	-0-	553,045	14,527,817	(740,263)
Total Year Two	57,618,596	53,091,183	351,708	53,442,891	8,922,555	-0-	8,922,555	44,520,336	13,098,260
Year Three (July 6, 1987, court order):									
Triple A achievement	6,292,614	5,514,197	5,428	5,519,625	54,078	-0-	54,078	5,465,547	827,067
Reduced class size	8,450,135	5,354,247	1,130	5,355,377	-0-	-0-	-0-	5,355,377	3,094,758
Summer school	1,295,764	1,213,426	-0-	1,213,426	5,025	-0-	5,025	1,208,401	87,363
Full day kindergarten	1,826,964	1,329,080	50	1,329,130	-0-	-0-	-0-	1,329,130	497,834
Before/after school	233,759	272,280	-0-	272,280	36,220	-0-	36,220	236,060	(2,301)
Early childhood	3,102,178	2,758,134	(13,289)	2,744,845	45,797	-0-	45,797	2,699,048	403,130
Effective schools	6,555,000	5,898,437	36,823	5,935,260	59,568	16	59,584	5,875,676	679,324
1986-87 Magnets	12,257,529	11,134,556	2,915	11,137,471	152,634	-0-	152,634	10,984,837	1,272,692
Long-range magnets	17,340,592	14,679,140	41,234	14,720,374	1,028,258	-0-	1,028,258	13,692,116	3,648,476
Magnet transportation (2)	5,658,667	5,931,040	(554,736)	5,376,304	483,939	-0-	483,939	4,892,365	766,302
Public relations	30,000	33,321	101	33,422	-0-	-0-	-0-	33,422	(3,422)
Desegregation monitoring committee (3)	256,228	64,057	-0-	64,057	-0-	-0-	-0-	64,057	192,171
Relocation costs	454,687	319,768	-0-	319,768	-0-	-0-	-0-	319,768	134,919
Retroactive salary increase (4)	7,146,646	4,778,667	-0-	4,778,667	5,758,765	-0-	5,758,765	(980,098)	8,126,744
Interest cost	957,700	991,025	-0-	991,025	33,325	-0-	33,325	957,700	-0-
Maintenance plan (5)	2,239,877	1,566,551	102,206	1,668,757	-0-	52,354	52,354	1,616,403	623,474
Special education plan (5)	869,189	510,653	-0-	510,653	-0-	-0-	-0-	510,653	358,536
Total Year Three	74,967,529	62,348,579	(378,138)	61,970,441	7,657,609	52,370	7,709,979	54,260,462	20,707,067
Year Four (July 25, 1988, court order):									
Triple A achievement	5,908,298	4,713,001	339,771	5,052,772	-0-	-0-	-0-	5,052,772	855,526
Reduced class size	8,787,191	5,020,206	(33,935)	4,986,271	-0-	-0-	-0-	4,986,271	3,800,920
Summer school 1988	1,249,571	968,052	1,612	969,664	-0-	-0-	-0-	969,664	279,907
Full day kindergarten	1,773,185	1,308,053	3,592	1,311,645	-0-	-0-	-0-	1,311,645	461,540
Before/after school	\$ 600,000	402,228	13,749	415,977	189	-0-	189	415,788	184,212

## Appendix A

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT  
CUMULATIVE SCHEDULE OF BUDGETED AND ACTUAL DESEGREGATION EXPENDITURES  
THROUGH JUNE 30, 1990

## UNAUDITED

		Recorded Expenditures			Questioned Costs			Allowable Expenditures (Over) Under Budget	
Program	Budget	Prior Years	Year Ended June 30, 1990	Total	Prior Years	Year Ended June 30, 1990	Total	Allowable Expenditures	
Year One (June 14, 1985, court order):									
Triple A achievement	\$ 4,738,500	4,040,142	-0-	4,040,142	180,787	-0-	180,787	3,859,355	879,145
Reduced class size	2,000,000	1,969,497	-0-	1,969,497	1,035,578	-0-	1,035,578	933,919	1,066,081
Summer school	641,550	631,365	-0-	631,365	-0-	-0-	-0-	631,365	10,185
Full day kindergarten	1,092,000	993,409	-0-	993,409	-0-	-0-	-0-	993,409	98,591
Before/after school	104,400	74,123	-0-	74,123	-0-	-0-	-0-	74,123	30,277
Early childhood	894,909	416,409	-0-	416,409	-0-	-0-	-0-	416,409	478,500
Effective schools	4,025,000	3,578,111	-0-	3,578,111	1,048,496	-0-	1,048,496	2,529,615	1,495,385
Magnet planning	85,000	78,527	-0-	78,527	-0-	-0-	-0-	78,527	6,473
Staff development	500,000	514,827	-0-	514,827	-0-	-0-	-0-	514,827	(14,827)
Public information	30,000	12,358	-0-	12,358	-0-	-0-	-0-	12,358	17,642
Capital improvements (1)	37,000,000	37,053,935	15,797	37,069,732	1,142,634	-0-	1,142,634	35,927,098	1,072,902
Total Year One	51,111,359	49,362,703	15,797	49,378,500	3,407,495	-0-	3,407,495	45,971,005	5,140,354
Year Two (June 16, 1986, court order):									
Triple A achievement	8,790,697	7,356,460	-0-	7,356,460	497,708	-0-	497,708	6,858,752	1,931,945
Reduced class size	4,000,000	3,548,273	-0-	3,548,273	488,749	-0-	488,749	3,059,524	940,476
Summer school	1,196,000	890,475	-0-	890,475	23,538	-0-	23,538	866,937	329,063
Full day kindergarten	1,594,496	1,517,759	-0-	1,517,759	219,437	-0-	219,437	1,298,322	296,174
Before/after school	104,400	90,041	-0-	90,041	1,380	-0-	1,380	88,661	15,739
Early childhood	1,551,786	1,463,975	-0-	1,463,975	203,495	-0-	203,495	1,260,480	291,306
Effective schools	5,275,000	4,564,949	-0-	4,564,949	357,237	-0-	357,237	4,207,712	1,067,288
1986-87 Magnets	12,972,727	12,716,394	-0-	12,716,394	1,517,541	-0-	1,517,541	11,198,853	1,773,874
Magnet transportation (2)	-0-	1,255,956	-0-	1,255,956	1,247,793	-0-	1,247,793	8,163	(8,163)
Long-range magnets	8,315,936	4,924,197	-0-	4,924,197	3,812,201	-0-	3,812,201	1,111,996	7,203,940
Public relations	30,000	33,550	-0-	33,550	431	-0-	431	33,119	(3,119)
Capital improvements	13,787,554	14,729,154	351,708	15,080,862	553,045	-0-	553,045	14,527,817	(740,263)
Total Year Two	57,618,596	53,091,183	351,708	53,442,891	8,922,555	-0-	8,922,555	44,520,336	13,098,260
Year Three (July 6, 1987, court order):									
Triple A achievement	6,292,614	5,514,197	5,428	5,519,625	54,078	-0-	54,078	5,465,547	827,067
Reduced class size	8,450,135	5,354,247	1,130	5,355,377	-0-	-0-	-0-	5,355,377	3,094,758
Summer school	1,295,764	1,213,426	-0-	1,213,426	5,025	-0-	5,025	1,208,401	87,363
Full day kindergarten	1,826,964	1,329,080	50	1,329,130	-0-	-0-	-0-	1,329,130	497,834
Before/after school	233,759	272,280	-0-	272,280	36,220	-0-	36,220	236,060	(2,301)
Early childhood	3,102,178	2,758,134	(13,289)	2,744,845	45,797	-0-	45,797	2,699,048	403,130
Effective schools	6,555,000	5,898,437	36,823	5,935,260	59,568	16	59,584	5,875,676	679,324
1986-87 Magnets	12,257,529	11,134,556	2,915	11,137,471	152,634	-0-	152,634	10,984,837	1,272,692
Long-range magnets	17,340,592	14,679,140	41,234	14,720,374	1,028,258	-0-	1,028,258	13,692,116	3,648,476
Magnet transportation (2)	5,658,667	5,931,040	(554,736)	5,376,304	483,939	-0-	483,939	4,892,365	766,302
Public relations	30,000	33,321	101	33,422	-0-	-0-	-0-	33,422	(3,422)
Desegregation monitoring committee (3)	256,228	64,057	-0-	64,057	-0-	-0-	-0-	64,057	192,171
Relocation costs	454,687	319,768	-0-	319,768	-0-	-0-	-0-	319,768	134,919
Retroactive salary increase (4)	7,146,646	4,778,667	-0-	4,778,667	5,758,765	-0-	5,758,765	(980,098)	8,126,744
Interest cost	957,700	991,025	-0-	991,025	33,325	-0-	33,325	957,700	-0-
Maintenance plan (5)	2,239,877	1,566,551	102,206	1,668,757	-0-	52,354	52,354	1,616,403	623,474
Special education plan (5)	869,189	510,653	-0-	510,653	-0-	-0-	-0-	510,653	358,536
Total Year Three	74,967,529	62,348,579	(378,138)	61,970,441	7,657,609	52,370	7,709,979	54,260,462	20,707,067
Year Four (July 25, 1988, court order):									
Triple A achievement	5,908,298	4,713,001	339,771	5,052,772	-0-	-0-	-0-	5,052,772	855,526
Reduced class size	8,787,191	5,020,206	(33,935)	4,986,271	-0-	-0-	-0-	4,986,271	3,800,920
Summer school 1988	1,249,571	968,052	1,612	969,664	-0-	-0-	-0-	969,664	279,907
Full day kindergarten	1,773,185	1,308,053	3,592	1,311,645	-0-	-0-	-0-	1,311,645	461,540
Before/after school	\$ 600,000	402,228	13,749	415,977	189	-0-	189	415,788	184,211

## Appendix A (Continued)

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT  
CUMULATIVE SCHEDULE OF BUDGETED AND ACTUAL DESEGREGATION EXPENDITURES  
THROUGH JUNE 30, 1990

UNAUDITED

Program	Budget	Recorded Expenditures			Questioned Costs			Allowable Expenditures (Over) Under Budget	
		Prior Years	Year Ended June 30, 1990	Total	Prior Years	Year Ended June 30, 1990	Total		
Year Six (June 26, 1990, court order) (Continued):									
1986-87 Magnets	\$ 15,694,833	-0-	504	504	-0-	-0-	-0-	504	15,694,329
Magnet transportation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Long-range magnets	41,992,484	-0-	6,415	6,415	-0-	-0-	-0-	6,415	41,986,069
Base budgets	14,867,645	-0-	1,437	1,437	-0-	-0-	-0-	1,437	14,866,208
Public relations	31,125	-0-	-0-	-0-	-0-	-0-	-0-	-0-	31,125
Research and development	5,414	-0-	-0-	-0-	-0-	-0-	-0-	-0-	5,414
Interest cost	788,068	-0-	-0-	-0-	-0-	-0-	-0-	-0-	788,068
Desegregation monitoring committee (3)	104,164	-0-	-0-	-0-	-0-	-0-	-0-	-0-	104,164
Teachers salary	5,147,646	-0-	(432)	(432)	-0-	-0-	-0-	(432)	5,148,078
Debt service	14,921,978	-0-	-0-	-0-	-0-	-0-	-0-	-0-	14,921,978
Maintenance plan (5)	2,239,877	-0-	(929)	(929)	-0-	-0-	-0-	(929)	2,240,806
Special education compliance (5)	869,189	-0-	(49)	(49)	-0-	-0-	-0-	(49)	869,238
Summer security (5)	124,580	-0-	(114)	(114)	-0-	-0-	-0-	(114)	124,694
Security-new initiative	170,531	-0-	-0-	-0-	-0-	-0-	-0-	-0-	170,531
Salary package	32,000,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	32,000,000
Voluntary interdistrict transfer plan	22,934	-0-	-0-	-0-	-0-	-0-	-0-	-0-	22,934
Total Year Six	154,793,842	-0-	88,690	88,690	-0-	-0-	-0-	88,690	154,705,152
Magnet capital improvements (8)	386,487,383	45,078,841	81,397,362	126,476,203	5,089,951	2,078,995	7,168,946	119,307,257	267,180,126
Total All Years	\$ 952,556,127	293,758,235	183,266,921	477,025,156	27,649,333	4,506,179	32,155,512	444,869,644	507,686,483

- (1) The U. S. District Court order on February 22, 1988, changed the state's share from 100 percent to 50 percent. The Kansas City Missouri School District (KCMSD) has received temporary funding relief from the state for \$8,093,054 of the district's share of capital improvement expenditures which does not have to be repaid until the U. S. District Court orders the refund.
- (2) An August 29, 1988, court order approved the entire Magnet Transportation cost for 1986-87 to be paid by the state and an incremental cost formula to be used for 1987-88 and future years.
- (3) The district's share of these costs are paid directly to the Desegregation Monitoring Committee, not through KCMSD.
- (4) This amount was not in the July 6, 1987, court order; however, later court rulings resulted in this being a Year Three cost paid fully by the state.
- (5) 100 percent district funded.
- (6) Questioned expenditures which do not relate to any one specific program.
- (7) The court order dated November 1, 1990, agreed that the district owed the state for tax allocation errors in the amount of \$1,474,762. We questioned \$5,202,675 based upon our calculation of the taxes due. We have lowered the questioned costs by \$3,727,913, or the difference between our calculation of tax allocation errors and the court approved amount. The court has suspended payment of the \$1,474,762 to the state until the district has submitted a repayment plan.
- (8) The court order dated January 10, 1991, approved 1988-89 and 1989-90 staging costs of \$2,113,644; therefore, the questioned cost total has been reduced by this amount.

Appendix B

SPECIAL REVIEW OF DESEGREGATION PAYMENTS TO KANSAS CITY, MISSOURI SCHOOL DISTRICT  
CUMULATIVE ACTIVITY OF FUNDING  
FIVE YEARS ENDED JUNE 30, 1990

U N A U D I T E D  
- - - - -

Fiscal Year	Recorded Expenditures	State Paid	Questioned Costs		
			Total	State Share	District Share
1986	\$ 24,265,221	12,769,196	2,968,562	2,643,607	324,955
1987	49,412,579	36,714,920	1,643,925	1,560,710	83,215
1988	96,407,062	64,107,617	15,704,673	11,682,555	4,022,118
1989	123,673,373	77,957,889 29,422,048 (1)	7,332,173 (2)	4,519,610	2,812,563
1990	183,266,921	118,300,546	4,506,179	2,900,420	1,605,759
Total	\$ 477,025,156	339,272,216	32,155,512	23,306,902	8,848,610

(1) Refund of income tax surcharge

(2) Reduced for subsequent court orders resolving questioned costs. See Appendix A.

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