
Secretary of State

State of Oregon

CROOK COUNTY SCHOOL DISTRICT

Special Review



Audits Division

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Audits Division



Auditing for a Better Oregon

The Honorable John Kitzhaver, M.D.
Governor of Oregon
State Capitol
Salem, Oregon 97310

Crook County School Board
and
Bruce Anderson, Superintendent
Crook County School District
1390 SE Second Street
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In October 1996, a number of Crook County citizens raised substantial concerns about the financial operations of Crook County School District (district). As a result of our preliminary review, we conducted an audit of issues relating to the district's apparent need for increased accountability for public funds. We analyzed pertinent school district records for the period of January 1994 through June 1997. The purpose of our audit was to investigate specific allegations presented to us and other relevant information that came to our attention. This report contains the results of that review.

In conducting this audit, we interviewed appropriate district employees as well as other interested parties. We also analyzed pertinent records maintained by the district. We conducted the audit in accordance with generally accepted government auditing standards.

The results of our review determined that the district can improve accountability over public funds in several areas. We found that the district engaged in transactions that did not appear to be at arm's length. In addition, the district did not, at times, use a competitive procurement process as required by public procurement laws and rules. Furthermore, the district did not maintain inventory records for its fixed assets and did not properly record in its accounting records certain revenue and expenditure transactions.

Our review also identified several areas where board approval and oversight can be improved. The district superintendent did not always present significant issues to the board and frequently relied upon polling individual board members by telephone to obtain approval for operating decisions. Further, two board policies created confusion or appeared to be contradictory, resulting in a lack of clarity about the superintendent's authorization relating to purchasing and grants from private sources.

We also noted areas relating to hiring and training of personnel that can be improved. The district needs to ensure it consistently follows established hiring procedures and provides required training to custodians for the hazard communication and Asbestos Hazard Emergency Response Act programs.

OREGON AUDITS DIVISION

John N. Lattimer
Director

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SUMMARY

PURPOSE

In October 1996, a group of Crook County citizens requested that the Secretary of State audit Crook County School District. The citizens expressed concerns about an apparent lack of accountability for public funds. The purpose of this review was to investigate specific allegations presented to us and other relevant information that came to our attention during the review.

BACKGROUND

Crook County School District, with headquarters in Prineville, Oregon, serves over 3,000 students enrolled in kindergarten through 12th grade.

A five-member school board governs the district through its policy-making function, relying upon information provided by the superintendent, district administrators and the business manager to fulfill its oversight duties. Under the board's oversight, the superintendent has day-to-day supervision of all district schools, personnel and departments. Therefore, the superintendent is responsible for managing the schools according to the board's policies and is accountable to the board for that management.

RESULTS IN BRIEF

Crook County School District can improve accountability over public funds in several areas:

- The district engaged in transactions that did not appear to be at arm's length. For example, in October 1994, the district purchased \$7,486 of computers from an individual who served on the district's Computer Technology Committee. This individual closely assisted the district in these purchasing decisions. In addition, in January 1997, the district paid \$862 for a digital camera from its network administrator, who owns a computer equipment sales and services business in Prineville. This transaction did not follow the district's normal purchasing process, and, because the camera was used, it is questionable whether the price paid should have been equal to the original purchase price.
- The district did not use a competitive procurement process to acquire certain goods as required by public

procurement laws, nor comply with procurement rules when it formally bid for certain goods. As a result, the district may not have treated bids objectively or equitably, creating the appearance of favorable treatment and risking potential litigation. In addition to other examples, during the January 1995 bid process for a computer equipment contract, the district accepted bids from two vendors who did not comply with instructions to submit references for three key customers. One of these vendors was the individual who served on the district's computer technology committee. The district awarded both vendors contracts from this request for bids.

- The district did not maintain inventory records for its fixed assets, nor have procedures to control movement of computer equipment among its schools and administrative departments. As a result, we were not able to locate four of 50 computers tested for existence. In addition, 14 percent of 254 computers were not at the school or department where the purchase price was charged. Controls are essential for protecting assets and proving ownership.
- The district disposed of surplus property in a public sale held in April 1996. However, district staff disposed of items remaining after the sale without obtaining direction from the board in accordance with district policy.
- For the 1996-97 fiscal year, the district did not properly record in its accounting records revenues from sports participation fees and bus rentals or expenditures for strategic planning.

Crook County School District can also make improvements in several areas relating to board approval and oversight:

- District management needs to ensure it presents significant issues to the board. For example, in April 1996, the school board awarded a \$279,572 contract for computers. The contract was subsequently canceled due to the vendor's delivery difficulties. Although board members were individually informed by telephone of the delivery problems, the board was

not consulted when the decision was made to cancel the contract. In addition, these telephone polls, which the district frequently used, do not allow public input prior to action being taken; therefore, the district may not be complying with the public meetings law.

Other decisions not presented to the board for approval included volume purchases and the hiring of a temporary administrator.

- Information provided to the board about the repair of a contractor's damage to a school was not sufficiently documented. It was not possible from the district's records to substantiate the extent of the damage or determine whether the amount recovered from the contractor was adequate to pay for repairs.
- Two district policies created confusion or appeared to be contradictory. An internal policy memorandum conflicted with the board's policy on grants from private sources. Based on the internal memo, the superintendent denied a grant proposal. As a result, the board was not allowed the opportunity to evaluate the proposal in accordance with its policy. In addition, disagreement among board members about the superintendent's purchasing authority may be reduced by clarification of the second policy relating to purchasing.

Crook County School District can also improve areas relating to hiring and training personnel. The district was not consistent in following established procedures, updating test scores for employees, using comparable information to evaluate candidates, and establishing a position prior to hiring for that position. In addition, the district needs to ensure it provides required training to custodians for the hazard communication and Asbestos Hazard Emergency Response Act programs.

RECOMMENDATIONS

This report makes recommendations for Crook County School District to improve its purchasing procedures to ensure its financial transactions are at arm's length, it follows usual and required procedures and it treats bids objectively and equitably. We also make recommendations for the district to improve its

accountability over fixed assets, including computer equipment and surplus property. In addition, recommendations are included for the board to improve its approval and oversight functions. Finally, we make recommendations for the district to improve its hiring and training practices.

AGENCY RESPONSE

In its response, which is included in this report, the district generally did not concur with our recommendations.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

Crook County School District, with headquarters in Prineville, Oregon, serves over 3,000 students enrolled in kindergarten through 12th grade. These students are served by seven public schools throughout Crook County. In 1997, the district ranked 47th in enrollment¹ of 199 school districts in the state.

A five-member school board governs the district through its policy-making function. The board relies upon information provided by the superintendent, district administrators and the business manager to fulfill its oversight duties in compliance with state and federal laws, rules and regulations and district policy.

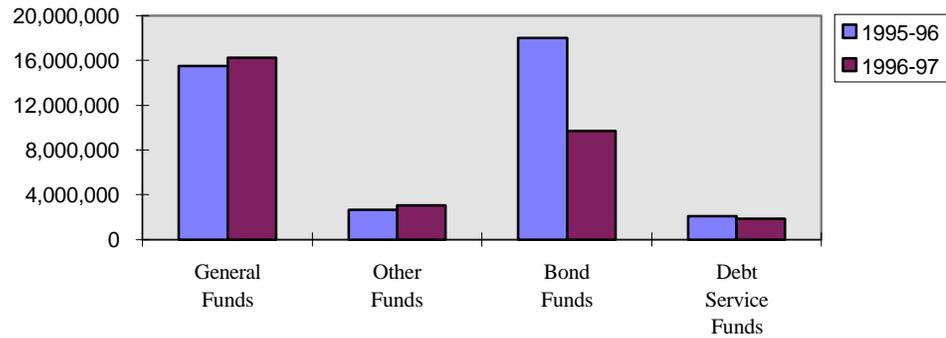
The superintendent is the district's chief executive officer. Under the board's supervision, the superintendent has general supervision of all district schools, personnel and departments. The superintendent is responsible for managing the schools under the board's policies and is accountable to the board for that management.

FINANCIAL ACTIVITIES

The district's adopted budget for the 1996-97 fiscal year was \$31 million from General Funds, Bond Funds, and Other Funds. This was down from the \$38 million budgeted for the 1995-96 fiscal year. The reduction was primarily due to the expenditure of proceeds generated from a 1993 bond levy. The district's General Fund amounts were more than \$16 million in 1996-97 and \$15 million in 1995-96.

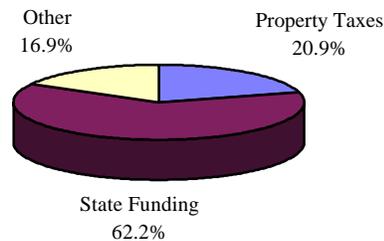
¹ Enrollment in this comparison is "average daily membership-resident," which means the estimated average number of students enrolled and resident to the district.

Crook County School District Adopted Budget Resources



State funding contributed approximately \$10 million, or 62 percent, of the district's General Fund in fiscal year 1996-97. Twenty-one percent came from local funding, and 17 percent from other resources, most of which was brought forward from the prior fiscal year.

Crook County School District General Fund Budgeted Resources 1996-97



In 1993, Crook County voters approved a \$20 million bond to build a new high school and renovate existing facilities to address Americans with Disabilities Act, safety and technology issues. The majority of these bond proceeds were spent during fiscal years 1994-95 and 1995-96.

SCOPE, OBJECTIVES AND METHODOLOGY

In October 1996, a number of Crook County citizens expressed substantial concerns to the Secretary of State in requesting an audit of Crook County School District. The

citizens expressed concerns that bond levy funds designated for school construction were used for purposes typically funded with General Fund money. Other concerns included an apparent lack of accountability for General Fund money.

We conducted preliminary interviews with citizens, school board members and school district employees and reviewed documentation relating to certain allegations. Based on this preliminary information, we determined the concerns were sufficient to warrant further review.

We were unable to review all concerns involving bond funds. Upon the advice of the Attorney General's office, we limited the scope of our audit to concerns involving state funds or instances where local funds and state funds were commingled.

The objective of our audit was to investigate specific allegations presented to us and other relevant information that came to our attention. We also evaluated whether selected activities were conducted in compliance with applicable laws, rules and regulations.

In this regard, we analyzed school district records for the period January 1994 through June 1997. We interviewed school district employees, board members, committee members, members of the business community and citizens. We limited our audit procedures to tests and procedures we considered necessary in the circumstances.

We conducted this audit in accordance with generally accepted government auditing standards. We limited our audit to those areas specified above.

AUDIT RESULTS

RESTRICTING PUBLIC RESOURCES TO PUBLIC BUSINESS

During our review, we identified several instances where public resources were not clearly restricted to public business.

- A. In 1994, the district purchased computers through transactions that did not appear to be at arm's length. These purchases were made from an individual who was serving on the district's computer technology and equipment committees. Based on available documentation, it appears that the individual obtained competitive quotes for the district in addition to submitting his own quote. Furthermore, the district, for approximately the same price it paid this individual, could have obtained computers with larger hard drives.

In June 1994, the school board appointed members to the district's Computer Technology Committee. The committee's purpose was to develop a technology plan for the district. This included assessing the district's needs and exploring options to meet and expand upon those needs. The committee was also directed to make recommendations for long-term technology goals and plans for technology upgrades.

The committee was active at least through August 8, 1994, when it made its presentations to the board. By October 7, 1994, an individual from this committee was serving on the district's Computer Equipment Committee. On the same date, the district purchased four computers for \$7,486 from this individual. Written quotes were available to support the prices paid for the computers, although two quotes consisted of advertisements from a computer magazine. A faxed copy of a third quote appeared to have been sent from the manufacturer directly to the individual before he delivered it to the district. In addition, based on the

date and time indicated on the faxed quote, the individual received the competitor's quote before he submitted his own quote to the district.

In addition, the computer magazine advertisements showed that the district, for approximately the same price it paid the individual for a computer equipped with a 210MB hard drive, could have obtained a computer with a 425MB or 340MB hard drive. File documentation did not indicate whether district staff considered the differences in the hard drives when the purchasing decision was made.

By allowing this individual to be involved in the purchasing process to the extent he was, the district put itself at risk of being criticized for the appearance of a less than arm's length transaction. In addition, by relying on this individual, the district may not have sufficiently researched its purchases to ensure it obtained the best equipment for the price paid. District management told us that when they began investing in computer technology, they had limited expertise. Therefore, they relied on the voluntary assistance from this individual who had experience with and knowledge of computers. The district subsequently hired a network administrator in late 1994.

We recommend district management, in the future, obtain and evaluate purchasing information independently to ensure it obtains the best product for the price and to ensure its future transactions are at arm's length.

- B.** For one transaction we reviewed, it appeared that an employee was not keeping his privately-owned business separate from his official position with the district. In addition, this transaction was not handled according to the normal purchasing process. Furthermore, the transaction involved the purchase of pre-owned equipment for a "new" price.

The current network administrator, hired in September 1996, has a computer equipment sales and service business in Prineville. In January 1997, he sold a digital camera to the district for \$862. He

had personally purchased the camera in November 1996. The camera, which takes photographs that can then be transmitted to a computer, was a type of equipment he might sell in his privately-owned business. The invoice the network administrator submitted to document the actual cost of this camera listed his school district telephone number as the contact number. In addition, the network administrator himself obtained the competitive quotes required by the district's purchasing procedures.

This transaction did not follow the district's normal purchasing process because it was handled as a reimbursement of expense instead of a direct purchase. Therefore, there was not an approved purchase order to indicate the district had established a need for this equipment prior to the date it was obtained.

Furthermore since the camera was used, it is questionable whether the price paid should have been equal to the original purchase price of \$862, which included \$62 for shipping and special delivery.

The district's purchasing procedures prohibit employees from using their official positions to obtain financial benefit. Based on the invoice submitted to document his cost, it appears that the network administrator did not benefit financially in this case. However, this transaction had the appearance of a conflict of interest because:

- The seller was a district employee.
- The transaction deviated from the normal purchasing process.
- The district did not document a need for the equipment prior to the purchase.
- The district paid a "new" price for pre-owned equipment.

We recommend district management prohibit the network administrator and other district employees

from selling goods or services to the district. School employees should be prohibited from using their school district telephone numbers for conducting private business.

We also recommend district management ensure usual purchasing procedures be followed, including obtaining independent, competitive quotes, when required, and documenting a need for equipment or services prior to the purchasing transaction occurring. In addition, district management should consider the appropriateness of paying a new equipment price for used equipment prior to making the purchase.

BOARD APPROVAL/PRACTICES

The board has the oversight responsibility and control over all activities related to the district, including setting policy, approving expenditures, and employing staff. The board relies upon information provided by the superintendent, district administrators and the business manager to fulfill these oversight duties.

- A. We identified three significant issues that were not presented to the board for approval.
- In April 1996, the school board awarded a contract for computers. On June 12, 1996, the district ordered \$279,572 of equipment, requesting delivery July 8, 1996. As of August 23, 1996, delivery had not been made after numerous calls to the vendor. On August 23, 1996, district management canceled the contract. At some point prior to this date, but not documented, the business manager telephone-polled board members about changing vendors. The board apparently chose to stay with the contract vendor. Later, district management canceled the contract due to the continuing delivery problems, but did not obtain prior board approval. The board was formally informed of the change in vendors at the September 9, 1996, board meeting. According

to board meeting minutes, one board member objected to the change in vendors having been made without notifying the board.

The board's purchasing policy reads, "The business manager is authorized to issue purchase orders without prior approval of the Board where formal bidding procedures are not required by law...." In this case, formal bidding procedures had been required due to the size of the contract. Formal procedures had been followed and a contract had been awarded upon board approval. Therefore, we question whether district management had the authority to cancel the contract without prior board approval.

- For the 1995-96 and 1996-97 fiscal years, district management did not present to the board decisions to purchase goods which accumulate to significant amounts from individual vendors.

Each school year, the district purchases items such as food and food supplies, paper and duplicating supplies, classroom supplies, and other items in large volume. Although individual purchases of these items may not be significant, for the school year, the total purchases from a particular vendor may be considerable. For example, food service items from one vendor exceeded \$180,000 for fiscal year 1996-97. Each spring, the district's purchasing staff makes arrangements for these purchases, either by obtaining quotes or coordinating with other governmental entities for shared contracts.

Board approval may not be required for all of these types of purchases. This would depend on the volume of the purchase, the method of procurement and the applicability of public procurement laws. However, due to its oversight role for the district's operations, the board should be informed of these and other significant purchasing decisions.

- In January 1996, the superintendent hired a licensed administrator as a temporary elementary

principal without the consent of the board. The administrator worked approximately five weeks and earned \$6,750. The district's personnel policies require the superintendent to present new hires to the board for approval. In addition, the superintendent's employment contract lists as one of the superintendent's duties to "employ all personnel subject to the approval of the Board." The district's policies do not differentiate between permanent and temporary licensed employees.

The board is not able to effectively fulfill its oversight duties as the district's governing body if all relevant issues and information are not presented to it.

We recommend district management ensure all relevant issues are presented to the board for information or approval as appropriate.

- B.** We noted one instance where information provided to the board was not sufficiently documented; therefore, we could not determine its reliability. Damage to an elementary school was reported to the board as totaling \$4,000, but only \$703 was recovered from the contractor who caused the damage. Based on available records, it appeared the \$4,000 may have included charges for additional work beyond the damage repair. However, the extent of damage incurred and the amount the district should have recovered from the contractor was unclear.

The district contracted for the excavation and replacement of asphalt at an elementary school with the work to be performed in July 1996. The contractor subcontracted the excavation portion of the contract. During the excavation, the subcontractor damaged the footings and exterior wall surface of the school building. The damage to the footings had to be repaired before the original contracted work could be finished. The district contracted with another company for the repair work; this invoice totaled \$4,000. The district recovered \$703 from the first contractor, an amount

determined by district staff. The district explained the discrepancy between these amounts as being due to additional work caused by age deterioration of the footings rather than damages.

The district did not prepare, nor require the subcontractor to prepare, a damage report. The district also did not obtain an assessment of the damage from a qualified professional. As a result, the extent of the damage and the potential cost for repairs were not documented. Furthermore, the district did not prepare a work order or contract for the repair work specifying that additional work was to be performed due to deterioration. The second contractor's invoice indicates that additional work may have been done. The contractor also told us that it was his understanding that he repaired damage caused by deterioration in addition to repairing the damage caused by the subcontractor.

To provide accountability for the use of public funds, it is essential that adequate documentation be prepared and maintained for their expenditure. Due to the lack of photographs or detailed reports of the damage incurred and the repair work performed, it is not possible to determine whether the amount recovered from the contractor was adequate.

We recommend district management, in the future, ensure it prepares and retains adequate documentation for the expenditure of public funds.

- C. Board minutes for January 1994 through June 1997 indicate that the board ratified decisions made by telephone polls on several occasions. The polls were conducted by district management between the monthly board meetings to obtain approval for proposed operating decisions.

For example, in April 1995, a telephone poll was taken to award a bid for a water and sewer extension contract. The result of this poll was ratified by the board at the May 8, 1995, meeting. In a second example, a telephone poll was taken to accept bids for work at the middle school and an elementary school. The poll was ratified at the

August 20, 1996, board meeting. When we reviewed minutes of board meetings held from January 1994 through October 1997, we noticed additional instances where the board ratified telephone polls.

The Oregon Attorney General's *Public Records and Meetings Manual* reads, "...a decision by a board, commission or council may only be made at a meeting at which a quorum is present." Also, *Oregon Revised Statute* 192.630(1) reads, "All meetings of the governing body of a public body shall be open to the public and all persons shall be permitted to attend any meeting except as otherwise provided by" other statutes.

The school board must make its decisions at a public meeting with a quorum of members present. By acting on responses from individual board members via telephone polls, district management may be taking action for which it does not have official board approval and thereby may be putting the board at risk of potential litigation. Furthermore, telephone polls do not allow public input prior to action being taken; therefore, the district may not be complying with the public meetings law.

We recommend district management and the board cease using telephone polls to make operating decisions and make these decisions in a public meeting. The board and district management should also consider more frequent board meetings to address matters that must be handled more immediately than the monthly meetings allow.

- D.** During our audit, we noted two board policies that create confusion or appear to be contradictory.
- The first policy, *Grants From Private Sources*, explains the evaluation and approval process for grant proposals requesting funds from private sources. In August 1996, an elementary school staff member prepared a grant proposal to obtain funds from a private source for assistance in the use of computer technology. On August 2, 1996, the business manager informed the staff

member by memorandum that the district's policy required proceeds from the grant to be applied to all the elementary schools. The staff member was not aware of this policy, and decided not to pursue the grant because it was not large enough to benefit all of the elementary schools. We were unable to find this policy in writing other than in the memorandum previously mentioned.

A September 18, 1996, memorandum from the curriculum director relating to the district's grant process explained that the superintendent would approve grant applications for submission to the funding sources, and once notice has been received that the application has been granted, the grant would be presented to the board for final approval. This is not in agreement with the board's policy, *Grants From Private Sources*, which states these types of grant proposals will be submitted to the board for evaluation and approval. The board's policy also provides that, when circumstances allow insufficient time to place grant proposals before the board, the superintendent is authorized to approve them.

The superintendent told us that the grant applied for did not match the priorities of the district at that time. He indicated that he had the authority to deny the grant application.

The board's policy, *Grants From Private Sources*, provides specific situations when the superintendent has the authority to approve grant applications for funds from private sources. However, it remains silent on the superintendent's authority for denying grant applications. The policy, while subject to interpretation, appears intended to facilitate applying for external funds. Further, the internal memorandum conflicts with the board's stated policy, which sends the evaluation and approval process to the board except in specific situations. By denying the August 1996 grant application, the superintendent did not allow the board the opportunity to evaluate the proposal.

We recommend the board review the district's internal memorandum related to grant proposals and, if necessary, clarify its intent for the superintendent's decision-making authority.

- The second policy, *Purchasing Authority*, does not establish a general purchasing authorization threshold for the superintendent.

The board's policy allows the business manager to issue purchase orders without the board's prior approval where formal bidding procedures are not required by law and when budget appropriations are adequate to cover the obligations. Board policy also stipulates no obligation may be incurred by any officer or employee of the board unless that expenditure has been authorized in the budget or by board action. The board, in 1994, authorized the superintendent to sign owner/design professional and owner/contractor agreements in amounts less than \$20,000 without prior board approval. The board also authorized the superintendent to execute change orders to these specific contracts as long as the change order did not increase the contract amount by more than \$20,000. However, the board's purchasing policies do not include a threshold for other purchasing decisions made by the superintendent or business manager.

The board minutes indicated that a difference of opinion existed between individual board members regarding the superintendent's authority to make purchases without prior board approval. For example, in board minutes of the December 11, 1995, meeting, two board members expressed concern about the superintendent spending building maintenance funds without having a defined plan with projected costs. Conversely, on April 8, 1996, a third board member stated, regarding board responsibility, that he repeatedly fought for the board to stay at the policy level and to stay out of the details that appropriately belonged to the professionals hired.

The Oregon School Boards Association, a voluntary organization that offers information, services and technical assistance to local school boards, has developed sample policies for school boards. The association's recommended purchasing policy includes providing a threshold for these decisions: "All purchases, contracts or agreements obligating district funds in excess of [\$] will require prior Board approval."

It is more beneficial for the board to evaluate the appropriateness of purchasing decisions before, rather than after, the district's commitment for a specific purchase has been made.

We recommend the board establish a general purchasing authority threshold for the superintendent and business manager.

PROCUREMENT PROCEDURES

Based on our review, the district needs to improve its purchasing procedures to better ensure the district is getting goods and services at reasonable prices.

- A. We found several instances where the district did not use a formal procurement process as required by public procurement laws.
 - The district did not formally bid for purchases of custodial supplies for the fiscal years 1995-96, 1996-97 and 1997-98, and classroom supplies and cafeteria equipment and supplies for fiscal year 1996-97.

Expenditures for custodial supplies exceeded \$62,000 for fiscal year 1996-97, up from \$42,000 in fiscal year 1995-96. The district usually obtained quotes for custodial supplies. The district's maintenance staff told us quotes were also requested for fiscal year 1997-98.

The district purchased classroom supplies in excess of \$129,000 for fiscal year 1996-97 without following a formal bidding process.

Quotes were obtained for higher-priced individual items. In addition, without using a bid process, the district purchased more than \$50,000 of cafeteria equipment and supplies for fiscal year 1996-97 to equip five cafeterias within the district.

These types of purchases consisted of multiple small purchases over the course of a school year.

The district's policy, *Bidding Requirements*, states that bids will be called for on all orders for equipment and supplies estimated to equal or exceed the amount set by law requiring public bidding. The district refers to the Oregon Attorney General's *Model Public Contracting Rules Manual* for its purchasing policies and procedures. These rules required formal bids for purchases in excess of \$25,000 prior to January 1, 1997, when the amount increased to \$50,000.

By not using appropriate procurement procedures, the district may not have obtained the best value for the price. Furthermore, the district is not complying with policies established by the board.

We recommend district management comply with applicable public procurement rules and board policies.

- B.** When the district used a formal bid process to purchase goods, it did not always follow procurement rules. The district's bid process was questioned in late 1995 as a result of errors the district made when it evaluated and awarded an excavation bid. Consequently, the district hired a consultant to review and report on, in addition to other specific items, the district's procurement practices as applied to the excavation bid. We reviewed the district's implementation of these recommendations and public procurement rules.
 - 1.** We selected seven contracts consisting of two invitations to bid and five requests for proposals. Four of the requests for proposals were issued after the district implemented

recommendations from the consultant. We identified the following conditions where improvements need to be made:

Condition	Number of Errors*	Percent Error
Advertisements sometimes did not contain basic elements such as the time and date proposals would be opened.	3	43%
Solicitation documents sometimes did not include an explanation of how the bid or proposal would be evaluated and awarded.	3	43%
Bids and proposals were accepted that sometimes did not meet specified requirements, e.g., an unsigned proposal was accepted.	2	29%
Bid and proposal files were sometimes not adequately documented. Items frequently missing included:		
Evidence that the contract was publicly advertised.	3	43%
Evidence that bids/proposals met submission deadlines.	2	29%
Evidence that required supplementary information was received, e.g., financial statements required by the telecommunications RFP.	3	43%
Reasons for not rejecting bids or proposals that did not meet specifications.	4	57%
Clear reasons for awarding the contract.	3	43%
List of findings indicating why a solicitation should be a request for proposal.	5 of 5 requests for proposal	100%

* Errors shown are from the seven contracts we reviewed unless otherwise noted.

We also noted one case where a vendor had been designated as a sole source for dairy

products, but the reasons had not been documented. When we reviewed bid files covering several years for this contract, it was evident that the number of vendors responding to the invitations to bid had declined until only one remained. However, the district, in recent years, had not determined if that vendor continued to be the only one available.

2. In January 1995, the district issued an invitation to bid for various computer equipment. The solicitation allowed potential vendors to bid on all or some of the categories included in the invitation to bid. Awards were made to multiple vendors. The district received eight bids, but rejected two for submitting incomplete bid packets. The bids were not date-stamped, and a receipt log was not kept. Therefore, it could not be determined whether all accepted bids were received by the stated deadline.

In addition, the district did not reject some bids that did not meet specifications or comply with bid instructions. For example, two bids did not include the required references for three of their key educational customers. Both vendors were awarded categories of the bid. One of these vendors was the individual who served on the district's technology committee as previously discussed. This vendor subsequently submitted consecutively numbered invoices to the district, which indicated the district was his only customer. As another example, one bid did not include the required detailed product specifications for one category, but this vendor was awarded this category of the bid.

As previously described, the district refers to the Oregon Attorney General's *Model Public Contract Rules Manual* in its procurement policies and procedures. The manual provides guidance for handling formal requests for bids and proposals. It also includes guidelines for documenting bid and proposal files. These public contract rules require

each bid, upon receipt, to be electronically or mechanically time-stamped or marked by hand and stored in a secure place until bid opening. These rules also offer guidelines for rejecting bids. Specifically, a bid may be rejected if it does not conform in all material respects to solicitation document requirements. The rules require solicitation documentation to set forth evaluation criteria for product acceptability and for bids to be evaluated objectively and equitably.

District personnel have developed a checklist that they use to help ensure they follow proper bid procedures. However, the checklist is not complete, which may have contributed to the errors we noted above.

By not complying with the public procurement rules, there is a risk that the district did not obtain a competitive price for the services and equipment it purchased. By not applying procedures consistently, the district may not have treated bids objectively or equitably, creating the appearance of favorable treatment and risking potential litigation.

We recommend district management ensure it is in compliance with public procurement rules. The district should expand its checklist to include:

- Requirements for advertisements.
- Solicitation requirements, such as an explanation of how the bid or proposal will be evaluated and awarded.
- A requirement to date and time-stamp all bid or proposal submissions.
- Receipt of supplementary information.
- A reminder to document reasons for not rejecting bids or proposals that do not meet specifications. To avoid the appearance of favoritism and minimize the risk of potential litigation, the district should carefully consider its decisions to accept bids that do not meet specifications.

- Reasons for awarding the contract; e.g. a matrix of specifications and bids summarizing the responses and the lowest bidder or best proposal.
 - Documentation of sole source vendors.
 - A requirement for requests for proposals, including a list of findings indicating why the solicitation should be a request for proposal versus an invitation to bid.
- C. The district needs to improve its process for procuring and contracting for professional services.

In February 1996, the district hired a consultant for \$10,000 to help with its strategic planning project. The district did not have procedures in place for screening and selecting personal services contractors. Therefore, the district was not able to show how the decision was made to select this particular consultant. In addition, the district did not prepare a contract describing the services to be provided and fees to be paid. The district did not require the consultant to provide detailed support for the \$10,000 he was paid. The consultant submitted an invoice to the district stating the \$10,000 was for fees and expenses, but the district did not require him to describe the basis for the fees (such as hours worked) or provide receipts for the expenses.

Oregon Revised Statute 279.051 authorizes public agencies to enter into contracts for personal services. The statute also requires public agencies to create procedures for screening and selecting personal services contractors. Screening and selection procedures typically address how proposals will be solicited, evaluated and ranked, and how contractors will be selected. Good business practices dictate the use of formal contracts and procedures for contract monitoring.

The district may not have obtained the best value to the price it paid for this contractor by not having procedures for screening and selecting this person and not preparing a formal contract or monitoring

costs of the contract. Furthermore, the district may not be complying with the applicable Oregon law.

We recommend the district develop and implement procedures for screening and selecting personal services contractors.

We further recommend the district use formal written contracts when applicable and implement contract monitoring procedures.

HIRING PRACTICES

The district was not consistent in following established procedures, updating test scores for employees, using comparable information to evaluate candidates, and establishing a position prior to hiring for that position.

- A.** While reviewing the district's recruitment and selection files, we noted several inconsistencies in the selection process:
- An individual was hired into a secretarial position before successfully completing a typing test at the required level of 60 wpm. The individual was offered employment on January 7, 1997, with the stipulation to pass the typing test by February 7, 1997. The individual passed the typing test on June 24, 1997, apparently having subsequently been given until the end of the six-month probationary period to do so.

According to a November 25, 1996, memorandum from the superintendent, the typing test, if applicable, and included as part of the Basic Skills tests, was required to be successfully completed prior to hiring. However, the superintendent made the January 1997 decision to hire the applicant who had not successfully completed the typing test.
 - The district allows current employees to keep the Basic Skills test scores on file to be considered for future positions. However, the district has not established a time period for which test

scores remain valid and does not require employees to update scores when they apply for new positions. As a result, scores may not reflect current abilities and may unnecessarily qualify or eliminate an employee for consideration for a new position.

- For two of six positions we reviewed, some candidates were not required to respond to the same questions. For an elementary principal position, one candidate was not required to submit a questionnaire nor was he required to interview, reportedly because he had just recently submitted a questionnaire and interviewed for another position. For the other position, curriculum director, two candidates were not required to complete the same questionnaire as the other candidates. One candidate, who was offered the position, had recently submitted a questionnaire and interviewed for another position.
- The top five candidates for the curriculum director position, filled in July 1996, had different SRI Perceiver interviews in their recruitment files. The SRI Perceiver, designed by Selection Research, Incorporated², is a standardized interview process. The process includes asking the candidate questions pertaining to a number of themes that are slightly different for each category. The district uses four categories: support service, teacher, principal, and administrator. The answers received assist the test administrator in determining a score. According to the superintendent, the SRI Perceiver is only part of the hiring process. A low score on a SRI Perceiver would not necessarily be a barrier to employment. For the five candidates mentioned above, three had the principal perceivers administered, one had an administrator perceiver, and one had a teacher perceiver. The SRI Perceivers in the candidates' files were not dated;

² Selection Research, Incorporated, the company that designed and copyrighted the interview process is now the Gallup Organization.

therefore, we could not verify that these test results were even applicable to the same recruitment.

According to the company that designed the interview process, the appropriate SRI Perceiver should be administered for the position under consideration. There are sufficient differences between the categories of tests to affect the results. It is also recommended that SRI Perceivers be updated every five years.

- An executive secretary position was changed to an executive assistant position and given a higher salary near the end of the selection process. The district did not use a new open recruitment for the upgraded position.

The position was first advertised as an executive secretary position at a salary range of \$25,000 to \$30,000. Twelve candidates were interviewed, but reportedly none had the necessary qualities and qualifications. The superintendent then recommended to the board an individual who was not among the original twelve candidates. According to the superintendent's recommendation, for this individual to accept a position with the district, the position description was rewritten to an executive assistant position, and a higher salary of \$33,000 was recommended. An open recruitment process was not followed to fill the new position. The new job description and recommendation to hire the individual already selected were presented to the board at the same time.

The district has not prepared adequate written recruitment and selection procedures, which may account for many of the instances described above. For example, the district's application and selection procedures for licensed employees make reference to a standard screening process, but the district has not prepared written procedures describing this process. Such guidelines are essential for screening and interviewing teams to ensure candidates are treated

consistently and objectively and to ensure an effective process.

Without consistent and uniformly applied hiring procedures, the district risks potential litigation from unsuccessful candidates.

We recommend district management expand its hiring procedures to include written procedures for a standard screening and interviewing process. The process should include a requirement for procedures to be uniformly applied to every candidate, including having all candidates respond to the same questions or tests.

We further recommend district management:

- Comply with its hiring policies and procedures.
- Establish a period for which employees' test scores are valid, and require employees to update scores if applying for a position after the period expires.
- Reopen the recruitment process if revisions are made to the position description and/or salary range.

B. For our review of the district's hiring process, we considered six positions, including secretarial, principal, and administrator.

For five of the six positions we reviewed, certain documentation was not available:

- Recruitment files for four positions did not contain application scoring or screening notes.
- Three positions required candidates to complete written questionnaires. Files for all three positions contained questionnaires for some candidates, but not all. For example, for one position, one of four candidates' files did not contain the questionnaire; for a second position, two of five files were missing questionnaires; and

for the third position, five of nine files did not contain questionnaires.

- Candidates' files for four positions did not have any interview notes or scoring sheets. For a fifth position, the file for one of two candidates did not contain this documentation.

Sufficient documentation is essential for the district to demonstrate the effectiveness and compliance of its hiring process. Oregon Administrative Rules for school districts recommend retaining, among other documents, the following recruitment and selection records:

- applicant lists,
- interview questions,
- interview scoring notes,
- application scoring notes,
- recruitment summary records, and
- related correspondence and documentation.

We recommend district management retain essential recruitment and selection records such as those described in the Oregon Administrative Rules for school districts.

HEALTH AND SAFETY

Both state and federal regulations exist to safeguard the health and safety of students. During our audit, we reviewed the district's compliance with training and reporting requirements of two health and safety programs: hazard communication and asbestos abatement.

- A. The district is required to provide training to custodians for the hazard communication and Asbestos Hazard Emergency Response Act (AHERA) programs. Some of this training is required to be provided upon the employee's initial assignment. We interviewed three recently hired custodians. Although all three stated they were aware of the hazards of chemicals and asbestos, they had not received the required training. As of December 11, 1997, none of the three had viewed

the videos the district offers as training for the hazard communication and AHERA programs. Hire dates for the three custodians were January 1997, June 1997, and August 1997.

Hazard communication regulations require employers to provide effective information and training on hazardous chemicals in employees' work areas at the time of their initial assignment and whenever a new physical or health hazard the employees have not previously had training for is introduced into their work area. The information to be provided, among other items, includes operations in the work area where hazardous chemicals are present, and the location and availability of the written hazard communication program, including the required list(s) of hazardous chemicals and material safety data sheets. Training is to include: (1) methods and observations that may be used to detect the presence or release of a hazardous chemical in the work area; (2) the physical and health hazards of the chemicals in the work area; (3) the measures employees can take to protect themselves from these hazards; and (4) the details of the hazard communication program developed by the employer, including an explanation of the labeling system and the material safety data sheet, and how employees can obtain and use the appropriate hazard information.

AHERA training regulations require new custodial and maintenance employees to receive two hours of awareness training within 60 days after commencement of employment. The training is to include: (1) information regarding asbestos and its various uses and forms; (2) information on the health effects associated with asbestos exposure; (3) locations of asbestos-containing building material in each school building in which they work; (4) recognition of damage, deterioration, and delamination of asbestos-containing building material; and (5) the name and telephone number of the AHERA designated person and the availability and location of the management plan.

The district uses videotapes to provide the required training for new custodians. The district's safety officer told us that the training is provided as soon after the hire dates as possible, usually within two weeks. The safety officer reported that he tries to follow up on new employees who miss the training, but does not always catch everyone.

By not providing the formal training, management can not be assured its custodians have sufficient knowledge of the hazards to which they are exposed. Although the three custodians appeared to be aware of the hazards, should an accident occur, the district may be at risk of litigation for not ensuring the formal training was provided.

We recommend district management ensure that new employees receive the formal training required by state and federal health and safety programs.

- B.** The district did not perform periodic surveillance of identified asbestos sites from November 1995 until March 1997. AHERA regulations require three-year inspections by an accredited inspector, which were performed. The regulations also require six-month periodic surveillance, which had not been performed by the district's staff. However, in March 1997, during our audit fieldwork, the district had completed surveillance at all but one school in the district.

We reviewed the March 1997 surveillance reports for two of the district's seven schools. Neither report was signed by the person performing the surveillance, as required by AHERA regulations.

The six-month surveillance is essential for the district to be aware of changes in containment that could occur between the three-year inspections. In addition to complying with requirements of the law, signatures on the surveillance reports indicate who was responsible for assessing a given asbestos site.

We recommend district management ensure it continues the six-month surveillance and require the person performing the work to sign the report.

FIXED ASSETS

The district does not maintain inventory records for its fixed assets. During our audit, we reviewed computer purchases for the fiscal years 1995-96 and 1996-97. By its own report, the district has spent over \$1 million in bond funds alone on information technology since fiscal year 1993-94. We were initially not able to locate 11 of 50 computers tested for existence, although subsequent information from the district reduced this number to four. In addition, we determined that 14 percent of 254 computers were not at the cost center (school or department) where the purchase price was charged.

We also reviewed the district's disposition of surplus property placed in a public sale in April 1996. The board did not designate the disposition of surplus property remaining after this sale as required by board policy. District office staff disposed of the remaining items without obtaining direction from the board.

- A. For our tests of computers, we selected invoices documenting the purchase of 260 computers during fiscal years 1995-96 and 1996-97. We conducted two tests to determine whether: (1) the computers actually existed, and (2) the computers were at the schools and administrative departments (i.e. cost centers) to which they were charged.

The district did not have inventory records of its fixed assets to which we could compare the computer purchases. As an alternative procedure, we compared the purchases to lists of computers the district had recently compiled for certain schools and to computers we found at specific cost centers that were not included in the district's lists. Fifty-five of the 260 computers (21 percent) were not on the district's lists or at the cost centers we visited. To verify existence, we selected 37 of these 55 exceptions, plus an additional 13 computers that were on the district's lists. We then attempted to physically locate these 50 computers. We were initially not able to verify the existence of 11 of these 50 computers (22 percent). Subsequently, the district performed additional inventory reviews and provided an updated partial listing to us. Seven of the 11 computers we had been

unable to locate were on this new listing, reducing to four the number of missing computers.

For our second test, we compared the locations of the 260 computers to the cost centers to which the purchases had been charged. Excluding the four computers previously mentioned as missing and two we found being repaired, 36 of the remaining 254 computers (14 percent) were not at the cost centers to which the purchases were charged. As a result, we question whether the cost centers paying for the computers actually benefited from the purchases.

In addition to not having fixed assets records, the district does not have procedures to control the movement of the equipment among its cost centers. Without controls over assets, the district is at risk of losing them through theft or misplacement. Furthermore, due to nonexistent or inadequate records, the district would have a difficult time proving ownership of a particular piece of equipment.

We recommend district management establish fixed assets records and develop and implement procedures to control its fixed assets, including computer equipment.

- B.** The district held a public sale of board-designated surplus property in April 1996. According to district personnel, items remaining after the sale were given away, taken to the landfill, or returned to the facilities from which they came. Board minutes do not indicate the board authorized the disposition of the items remaining after the public sale. It is also not clear how many items remained after the sale because district staff did not prepare an inventory of remaining items.

The district's policy, *Disposal of School Property*, reads, "If reasonable attempts to dispose of surplus properties fail to produce a monetary return to the district, the Board may dispose of them in another manner."

By designating the disposition of remaining surplus items, the board provides clear instructions to district

staff. This will reduce the risk that staff will be criticized for improperly disposing of school property.

We recommend district management follow board policy by asking the board to designate the disposition of remaining surplus items after public sale. To save time, this decision could be made at the same time the decision to hold a sale is made.

ACCOUNTING PROCEDURES

During our review of the district's accounting records, we noted certain instances where the district needs to make improvements.

- A. For the 1996-97 fiscal year, the district assessed a fee of \$50 per student per sport for participation in sports programs. The district recorded \$12,150 of the \$24,300 collected as revenue for the General Fund, and the balance as a reduction of the high school's "other professional/technical services expenditures." Additional miscellaneous revenue received by the district included \$32,421 for renting school buses to transport Forest Service fire-fighters and Head Start participants. The district recorded this revenue as a reduction of expenditures of the transportation division's "other professional/technical services."

Governmental accounting standards provide direction for the proper treatment of revenue transactions. Reductions of expenditures typically are used for transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund. In addition, Oregon Department of Education's *Program Budgeting and Accounting Manual* includes guidelines for recording particular types of revenue such as the sports participation fees. Specific accounts are recommended for co-curricular activities and for rentals or miscellaneous revenue.

Compliance with accounting standards helps ensure comparable and meaningful financial information is available to demonstrate public accountability. When standards are not followed, the information is less meaningful and not representative of the financial activities that occurred.

We recommend district management record revenue from athletic participation fees and bus rental income in revenue accounts instead of reducing expenditures in the associated accounts.

- B.** On January 16, 1997, the district paid \$2,450 to a company to design and print the district's vision and goals statement. Reportedly, this handout was later used at presentations to local civic and service groups. The cost for the handout was originally coded to be charged to the Office of the Superintendent for consumable supplies. Prior to recording the transaction, a coding change authorized by the superintendent designated the charge as Instructor Training for professional/technical services. However, this accounting function code is primarily used for instructional staff development.

District policy allows the superintendent to approve transfers between programs, functions and/or object codes within the same level of appropriation. Both functions, Office of Superintendent and Instructor Staff Training, are within the Support Services appropriation category. Therefore, the superintendent should have authorized a budget transfer rather than recording the transaction in the incorrect budget category. To provide accurate accounting information for management use and for reporting purposes, transactions must be consistently recorded to the proper account classifications.

We recommend district management, in the future, ensure transactions are properly classified.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Crook County School District School Board, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Crook County School District were commendable and much appreciated.

AUDIT TEAM

Sharron E. Walker, CPA, CFE

Dale Bond, CPA, CFE

John Ruell

AGENCY'S RESPONSE TO THE AUDIT REPORT

CROOK COUNTY SCHOOL DISTRICT

1390 SE 2ND STREET • PRINEVILLE, OR 97754-2498 • PHONE (541)447-5664 • FAX (541)447-3645

June 23, 1998

Sharon E. Walker
Secretary of State
Audits Division
255 Capitol Street, N.E., Suite 500
Salem, OR 97310

Dear Ms. Walker:

The Crook County School District Board members have reviewed the Secretary of State's draft audit dated June 1, 1998. Enclosed is our response to the audit report.

If you have any questions, please contact me at 447-5557.

Sincerely,

James B. Minturn
Board Chairman

cc: School Board Members (w/enc)



CROOK COUNTY SCHOOL DISTRICT

GENERAL RESPONSE

The Secretary of State's audit report contains some findings and recommendations which are accurate and point out areas where the District's procedures and practices could be improved. The District will make every effort in those areas to improve procedures so that the circumstances noted are not duplicated in the future. In some areas, improvements have already been made. In other areas, the findings and recommendations in the report appear to be based on incorrect or incomplete information. In those areas, the Secretary of State's auditors should work to improve their practices and procedures so that such errors are not duplicated in the future. Specifically, auditors should review concerns as they are developed with those involved to see if other information should be considered before reaching a conclusion and formulating a recommendation. Noted below are areas where it appears the auditors either did not consider all relevant information or proceeded on incorrect factual assumptions. 1

The report notes that the original complaints which precipitated the audit were received in October of 1996. The Secretary of State's audit proceeded for the next 20 months without ever identifying what those allegations were or what the scope of the audit would be. Although the District still has not been told the specific allegations which prompted the audit, the report does not indicate that any District employee or Board member is guilty of anything which could reasonably be characterized as misfeasance or misconduct, was fraudulent or otherwise illegal or resulted in any personal gain to any employee or Board member. It appears that most of the allegations made, and all of the allegations of serious misconduct, were without a basis in fact. It would seem, in fairness to District employees and board members, and in order to provide the public with an accurate picture of what has occurred, that the Secretary of State's audit report should expressly state that after twenty months of investigating, inspecting and auditing, the auditors did not find any evidence of individual misconduct or personal gain by any District employee or Board member. 2

It is also appropriate to note that during the period scrutinized by the auditors, the District was certainly engaged in the extraordinary conduct of business. During the period in question, the District designed and constructed a new high school from the ground up, remodeled several schools, moved the existing middle school to the old high school building, and created and staffed a new elementary school in the old middle school. The District's normal operating budget is approximately \$17 million; during the short period in question, the District managed expenditures of approximately \$38 million without a significant increase in staff. The existing staff worked very hard to do what was necessary to complete these projects. The Board opted not to spend large amounts of the money available for these projects on additional administrative staff in order to maximize the amount which could be spent on the new buildings and the equipment needed to operate the new facilities. That decision necessarily increased the workload of the existing staff and, in retrospect, necessarily meant that some procedural and accounting activities would suffer,

at least temporarily. Whether that was the correct decision can now be second-guessed, but the projects were successfully completed in a timely manner and within the amounts of money available. The Secretary of State's auditors, with the luxury of twenty months to complete their audit, have found instances where, in their opinion, procedures could have been improved. The District will make every effort to correct the problems noted but will again remind all concerned that the projects audited were completed on time and within budget. It is interesting to note that the period of time spent by the Secretary of State's Office auditing these projects exceeded the amount of time in which the District completed these projects.

SPECIFIC RESPONSES

Restricting Public Resources to Public Business

- A. Computer Purchase:** In the fall of 1994, prior to the District hiring its own Network Administrator, a community volunteer who was also a Technology Manager at Les Schwab Tire Center, helped the District as it researched the question of whether to create its planned network on a PC or Apple platform; the District welcomed his help. He offered extensive knowledge and experience at a time when the District's on-staff capabilities were very limited. This individual also has two computer businesses

Because many of the District's staff, secretarial and teachers, had never used a PC (non-Apple) it collected quotes and purchased four computers at a competitive price from this individual, with one each to be set up at four different schools. The purpose of this purchase was to allow staff to work on a PC with an eye toward having them help in making the PC vs. Apple decision.

The decision to purchase the 210 MB computer was partially financial and partially a result of the District's desire to use Novell certified computers on its network. There are so many variables in the computer selection process that comparing prices based on any one capability means very little.

While the purchase was proper in this case, the District agrees that it is important to avoid the appearance of impropriety and that it independently evaluate purchasing information. This has already been implemented by hiring a Network Administrator.

- B. Camera Sale:** In late 1996, the District's Network Administrator personally ordered a digital camera for his own use. He received a call from the vendor saying the item was not available, so he cancelled the order and ordered the camera from another vendor. Several days later the camera he had cancelled arrived at his home. The company claimed to have a no-return policy, and the Network Administrator had two cameras.

Shortly thereafter, the principal at Cecil Sly Elementary called the District's Network Administrator saying she wanted to know more about digital cameras, what they could do and what it would cost to buy one for Cecil Sly Elementary. The Network Administrator answered her questions, and in the course of the conversation explained that he had one he could sell her. He indicated that it was a current model, brand new and had never been out of the box. He offered to sell it to Cecil Sly Elementary for exactly what he paid for it.

The principal asked the Business Manager for his opinion. The Business Manager concluded that, although it was out of the ordinary, it appeared that the principal was able to buy exactly what she wanted at a fair price.

When the Business Manager later discussed the transaction with the Superintendent, the Superintendent made it clear that such purchases could not be allowed. That information was relayed to the Network Administrator and the principal, and there has been no reoccurrence of such sales to the District.

Board Approval/Practices

A. Significant Issues Not Presented to Board for Approval

- **Contract for Computers:** In June 1996, the District placed a large computer order with Zenith Data Systems. This was the first large step toward setting up the District's network and particularly, the equipping of three computer labs at the new high school. The District requested delivery of the computers by July 8th to insure time to have the computer labs in operation when school opened.

By early August, the computers had not been shipped and Zenith could not say when they could ship. The high school teachers who would be using the labs as classrooms were becoming very anxious. The Business Manager was calling Zenith daily; they were making promises and excuses, but the computers were no closer to being shipped.

In mid-August, the Business Manager called each board member to explain the situation and to get a reading as to if and when to cancel the order if that became necessary. The board members acknowledged the seriousness of the situation and some of them indicated they had been receiving calls from staff expressing concerns. Board members favored letting Zenith try to meet its obligations, however every board member supported the idea of canceling the order if that became necessary to insure that the system was functional by the beginning of the school year.

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In the meantime, the District's Network Administrator resigned. The District's total technology staff then consisted of one relatively inexperienced person. On August 23rd, the Business Manager sent the Superintendent a memo expressing that the District could not wait any longer and should cancel the order. He was also getting "off the record" information from a source at Zenith that Zenith could not possibly complete the order in time to have the system in operation for the beginning of school. Given that the Business Manager had already discussed this possibility with the board members, when the Superintendent approved the request, the Business Manager canceled the order and a new order was placed.

By the second week of school, after the technology staff (1 person) had invested several long days and nights of work, the high school computer labs were in operation. At the September board meeting the Business Manager explained all of the steps which had been taken to the Board.

- **Hiring of Temporary Elementary Principal:** During the 1995-96 school year the Principal of Ochoco Elementary, was to be absent for a period up to 3 months as a result of surgery. After thoroughly discussing the workload and the issues that needed to be handled during his absence, the Principal and Superintendent agreed that a substitute principal was necessary to handle discipline issues and necessary staff evaluations.

OAR 584-36-005 (1) defines "Administrators": Principals, vice principals, and such other personnel, regardless of title, whose positions require them to evaluate other licensed personnel." The District needed to have a licensed person to carry out evaluations to meet statutory requirements. The retired principal at Ochoco Elementary, who had also served briefly as Interim Superintendent for the District, was available to serve as temporary principal and had maintained his administrative license. This individual was the only person who knew the staff at Ochoco Elementary and, therefore, was the only person who could perform the necessary mid-year evaluations.

The Superintendent appointed this individual to be a substitute administrator at Ochoco Elementary with the full knowledge of the Board.

5

Under the job goal described in district policy CBA it states that the Superintendent shall provide for "effective administration of all schools and departments, and educational leadership directed toward student performance throughout the school system and community." Based on the principal's anticipated period of absence and the necessity of evaluations, the building could not adequately be managed without a temporary principal being assigned. *[Policy CBA is attached as Exhibit A]*

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The temporary principal was paid at the daily rate of \$250 per day; the absent principal's rate of pay at the time was approximately \$264 per day. *[Salary Information is attached as Exhibit B]*

There are no policies, regulations, or statutes that require the Superintendent to receive prior approval for hiring a substitute administrator; existing policies that are in place give the Superintendent that authority.

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B. Information to Board Not Sufficiently Documented

A contract for the removal, excavation, and replacement of a portion of the playground at Ochoco Elementary in the amount of \$282,369.86 was approved based on a bidding process in August of 1996. There were five change orders totaling \$22,496 and one adjustment for damage to some concrete walkways outside the primary wing. Change Order #1 was for the removal of concrete pads from the doorways of the school; it was not apparent until the pads were removed that they continued under the walls of the building and that there were no foundations. Because of the damage caused by the contractor and existing conditions of cracked and missing concrete, the District asked a different contractor previously used for small projects to give an estimate for replacement of the concrete along the entire north side of the building on an emergency basis. The District had only a few days to finish this work prior to the scheduled arrival of the paving contractor. The foundation work at Ochoco Elementary totaled \$4,150 with approximately \$703 being attributed to damage caused by the original contractor. The concrete repair was completed one day prior to the paving contractor's arrival. Construction projects (emergency situations) are allowed by OAR 125-310-030 and these provisions were invoked and approved by the Board on August 20, 1996. *[Supporting Documentation is attached as Exhibit C]*

The District agrees with the Auditor's recommendation that adequate documentation for expenditure of public funds must be in place. However, the documentation in this situation was adequate considering that it was an emergency situation. It appears that the investigation by the Auditors on this particular issue was incomplete.

8

C. Board Ratified Decisions Made by Telephone Polls

- **April 1995:** The original expectation was that the City of Prineville would use grant funds to extend the water and sewer lines down Lynn Boulevard to the new high school. There was a delay in going to bid while the grant possibilities were pursued, and by the time it became clear that the District would have to fund that cost, the timeline for having that work done was very short. To expedite the project, the Board was polled shortly after the bids were opened. They gave their approval and the project moved ahead. The poll was ratified at the next Board meeting.

- **August 1996:** During the summer of 1996 construction on the new high school was moving quickly. As new projects came to the top of the priority list, it was necessary to know whether the Board approved of the project before the Project Manager invested time creating specifications and investing time in the bidding process. Because the start of school in September of 1996 was close at hand, the Board was approving bids as they were opened rather than putting everything on hold until the next board meeting. In all cases where the District asked the Board to approve a bid, they had already approved the project itself.

D. Board Policies that Create Confusion or Appear Contradictory

Grants from Private Sources - District policy authorizes the Superintendent to pursue federal or state grants-in-aid that will assist the District in meeting adopted goals and objectives. *[Policies DD and DFC are attached as Exhibit D]*

The Superintendent is instructed to focus resources of the District on the goals and objectives adopted by the Board. In 1994-95, the Board set district goals, the first of which was to create an excellent educational program. Under that goal, each building was to develop specific improvement plans based on the performance of students as measured by the prior year's testing. The critical areas needing improvement were reading and math. Ochoco Elementary was significantly behind the other schools in the District on student performance based on state testing results, and the Board had given specific direction to focus on meeting state testing benchmarks.

The grant proposal mentioned in the audit report focused on extensive training in technology, which was not the District's focus at the time. At the time of the grant proposal, the District was not prepared to staff or implement the plans addressed in the proposal. Additionally, the grant concept communicated to the Superintendent did not include other elementary schools in the District. Consequently, the grant was not in keeping with district goals as stated above and it did not include other schools in a significant training activity, and the District was simply exercising its discretion to focus the efforts of its staff on the most important areas needing improvement. *[District Goals and Test Results are attached as Exhibit E]*

This action did not violate policy or state law. Furthermore, it is not reasonable to assert that money was lost to the District because the grant was not pursued. One could make that same assertion regarding all the grants for which a district does not make application.

9

As a result of the Auditor's recommendation, the Board will review the policies to correct any ambiguities or contradictions regarding procedures between private grants and state and federal grants.

Purchasing Authority - The Auditor's recommendation that the board establish a purchasing authority threshold for the Superintendent and Business Manager is noted. Under present district policy, the Superintendent and Business Manager have the authority to purchase supplies and equipment within budget guidelines as long as the bidding requirements established by Oregon Attorney General's Contract Rules are met. That purchasing authority is clearly delineated in policy, which indicates that single capital purchases that deviate more than \$500 from the budget amount require board approval. Additionally, the \$20,000 change order resolution only applied to change orders in the construction process through the bond levy. *[Policies DJA and DBK are attached as Exhibit F]*

The District followed OSBA policies then in effect with regard to purchasing authority. The policy referred to by the Secretary of State was adopted subsequent to the District's policy review process.

In the narrative regarding this issue, the Auditor refers to comments made by a board member, which indicated a lack of planning for building maintenance. The District did have a maintenance plan. Two board members questioned the adequacy of the plan and that cost estimates were not included. The plan was only intended to be a planning document to be used in the budgeting process. The Board thereupon directed that cost estimates be included in plans. As a result, the District has very comprehensive and definite maintenance plans, which include cost estimates; actual costs are determined when the bidding process has been completed on each major project. *[Maintenance Plans are attached as Exhibit G]*

The District did address the issue of cost estimates not being included in the maintenance plans prior to the audit taking place.

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Purchasing Procedures

A. District did not Follow Formal Procurement Process

- **Multiple Small Purchases:** The report states that the District "did not use a formal procurement process as required." After citing several examples, the report ends the section by noting, "these types of purchases consisted of multiple small purchases over the course of a school year."

"Multiple small purchases" are a gray area in the procurement process. When a year-long buying pattern is known in advance, a formal bidding process may be appropriate. When year-long needs cannot be predicted, however, the District must rely on individual purchases using quotations at the time of purchase. In all cases these purchases are documented, appropriation authority is confirmed and the board

members receive and approve a list of all account payable checks over \$250 at each month's Board meeting.

During the time covered by the report, the Business Office made tremendous strides in improving and refining its purchasing practices. In 1996, at the height of the new high school construction activity, the District hired a recognized expert in the public procurement field. We asked him for a no-holds barred evaluation of our practices and his suggestions for changes and improvements, and his resulting report was the subject of an extensive public dialogue. There is still room for improvement, however it is not accurate to suggest that procedures the District did or did not use in 1995 are indicative of its present practices. The particular instances noted in the report can only be addressed if the District knows specifically what was found.

Regarding food service purchases, the district belongs to the Oregon Child Nutrition Co-op. This statewide co-op is a non-profit incorporated coalition of 81 districts who pool their food service purchases. It consolidates the member districts' needs, creates specifications and conducts the formal bidding process. As a result of this District's participation, the District has access to pricing, services and selection that it could never have as a single small district far from the buying market.

- **Hiring of Consultant:** The issue of hiring a consultant in February of 1996 was incorrectly documented by the Auditor. Furthermore, OAR 125-20-130, Personal Services Contract Definition, states: "Personal services contracts are not 'public contracts' as defined in ORS 270.011(5) and are not subject to the competitive procurement provisions of ORS 279.005 through 279.111." Consequently, the District believes that it followed proper procedure and that the Superintendent acted within the scope of his job description and the authority delegated to him by the Board per board action as noted in the attached documentation. *[Supporting documentation is attached as Exhibit H]*

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Hiring Practices

A. Inconsistencies in Selection Process

Between the time that the Secretary of State's auditors began their audit and the completion of the audit, the District hired a very experienced and successful school district personnel director to review its practices and received an extensive report which included recommendations for improvement. In general, the report was very positive and the recommendations made have been implemented. Although following all hiring procedures in all cases has not occurred, the District is substantially in compliance with its hiring procedures, is using skill testing appropriately, and is hiring the most qualified applicant in every circumstance. *[The Report is attached as Exhibit I]*

There was a reference in the Auditor's report to the SRI perceiver, which is inaccurately portrayed both in use and practice. SRI perceivers are administered only to those individuals that the District may be interested in employing. In any given recruitment cycle, the number of SRIs administered ranges from as few as 0 to as many as 15. The principal perceiver is a specific instrument used to assess building principals, and was developed after the more general "administrator perceiver." The "administrator perceiver" is more generic than the principal perceiver; the information received from both, however, is very similar, and in this case could be used interchangeably. This is based on the fact that half of the curriculum job responsibility was to fill the position of rural school principal, and either the principal or the administrator perceiver is applicable in this instance. The District advertised the curriculum director position two separate times and did not find anyone who met the District's needs. The candidate hired was recommended out of a vice-principal pool that was being reviewed during the same time period in which the District was working to fill the curriculum director/rural school principal position. The process and the result were appropriate given the candidate pool and time constraints. *[Postings for the Curriculum Director Position are attached as Exhibit J]*

Recommendations made by the Auditor for retention of recruitment selection records are noted and will be reviewed.

As with all employers, minor inconsistencies can be found at any given time in the District's hiring processes. The District hires a large number of people and thoroughly reviews finalists before making a hiring decision. The District has very limited staff who, according to a knowledgeable consultant, do a commendable job of managing the hiring process.

Fixed Assets

- A. Inventory Record of Fixed Assets:** The District's purchasing records provide accurate documentation of what the District has purchased, detail of what was purchased, and the cost center for which it was purchased.

There is no question that during the construction period and in the process of moving and setting up the new high school, middle school, and Cecil Sly Elementary, the tracking of fixed assets suffered. Simply put, there was barely enough time and staff to move all the computers, and not enough of either time or staff to create the proper paper trail.

Although the District's auditor had already recommended an improved asset inventory and tracking system, it was the winding down of the construction process that brought that possibility to the top of the priority list. This spring the District solicited bids for that

project; Valuations Northwest will be in the district this summer (1998) to conduct the inventory and install the software to keep the inventory current.

- B. Surplus Property:** Since at least 1991, the Board has assumed that a declaration of surplus property included authorization for the final disposal of those items remaining after a public sale. In the future the District will, as the report suggests, specifically ask for final disposition instructions at the time the items are declared surplus.

Accounting Procedures

The report noted two instances where resources were used to reduce expenditures instead of being recorded as miscellaneous revenue. The first instance noted was a fee for students participating in sports programs, and the second were fees for renting school buses for transporting third-party users. One group was fire fighters and the other group was participants in a non-school program. The report stated that accounting standards provided direction for treatment of revenues. While that is correct, the standards define revenues as an increase to current financial resources, and also define expenditures as decreases in financial resources; these definitions were applied in both of these transactions. The expenditures were made at the request of third-party users, and the monies received were simply reimbursement of the District's cost.

In both cases, if the third-parties had not asked the District to provide these services, the District would not have incurred any cost. The sports participants and the fire fighters requested the District to expend assets, which were to be reimbursed; in neither case would the District have expended the resources if it was not going to be reimbursed. Therefore, the monies received did not "increase current financial resources", nor did the expenditures decrease financial resources".

If the reimbursement had been recorded as revenue and the disbursement recorded as an expenditure, both revenues and expenditures would have been overstated, and the District's revenues and expenditures would have therefore been distorted. The financial statements would not have given a true picture of the district's cost for transportation or for extra co-curricular activities.

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The District's auditor feels that the transactions were handled correctly.

Legal/Scope of Audit Concerns

The Secretary of State has not enacted any regulations setting forth the procedure or format of an audit. Instead, the Secretary of State uses a Federal Government publication referred to as the "yellow book", which is a book on governmental auditing standards published by the Comptroller General of the United States. The "yellow book" recognizes different types of audits, and

recognizes that there are legal and conceptual differences between them. One type of audit explained in the yellow book is a "Performance Audit", which is different than a "fiscal audit."

In the Auditor's Report, the section on Hiring Practices at page 21 clearly seems to be a performance audit rather than a fiscal audit. The section on Health and Safety at page 25 also seems to be more of a performance audit, although arguably the safety standards could have some fiscal impact. A Performance Audit seems to be beyond the scope of the Secretary of State's constitutional and statutory authority.

There are two Attorney General opinions discussing this authority. One is AG Opinion Number 8166 dated March 6, 1985, in which the Attorney General points out that the Oregon Constitution neither requires nor authorizes the Secretary of State to conduct Performance Auditing. At the time the Constitution was adopted, evaluation of performance was not within the scope of the duties of the Secretary of State. While the Secretary of State can, in his discretion, evaluate the economy, efficiency and effectiveness of operations where that is necessary to determine fiscal accountability, the Secretary of State's constitutional function is to determine fiscal accountability. AG Opinion 8166 points out the distinctions regarding types of audits in the yellow book published by the Comptroller General, and further concludes that there is no constitutional authority which empowers the Secretary of State to conduct performance audits.

This same AG's opinion points out that the Legislature intended that the Secretary of State not conduct performance audits and that there is no statutory authority to do so.

AG Opinion Number 8211 dated December 1, 1989, deals with the Secretary of State's duty as a part of the auditing function to report to the Legislature such recommendations as the Secretary of State deems appropriate for lessening public expense, promoting frugality and economy in public office, and generally for the better management and more perfect understanding of the fiscal affairs of the State. That opinion indicates that the Secretary of State has broad discretion on how to carry out this duty, but still indicates that the audit function itself relates to determining fiscal accountability and fiscal affairs.

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Attached are the Attorney General opinions referred to above.

Respectfully submitted,

JAMES B. MINTURN, Board Chairman
Crook County School District

OREGON AUDITS DIVISION'S FOOTNOTES TO CROOK COUNTY SCHOOL DISTRICT'S RESPONSE LETTER

1. The Audits Division conducts its audits in accordance with generally accepted auditing standards promulgated by the AICPA Auditing Standards Board and *General Auditing Standards* issued by the Comptroller General of the United States. The audit findings included in this report were based on the documentation and information provided to us by the district during the audit.
2. Twenty months were not spent auditing the district. The time spent on this audit actually approximates four months for a three-person team. Staffing constraints and other audit priorities contributed to the amount of time that elapsed before its completion.
3. Evidence provided by the district was contrary to the information in the district's response.
4. The district did not provide documentation to show the board members' responses to the telephone poll.
5. Evidence of the board's knowledge was not reflected in the board minutes provided to us for review. We also asked the superintendent to locate evidence of the board's knowledge, but he did not provide minutes indicating that this matter was discussed with the board.
6. The exhibits referenced in the district's response letter were too voluminous to include in this report, but they are available from the Oregon Audits Division upon public request.
7. The policy provided by the district conflicts with the district's response.
8. Our conclusions were based on the documentation provided by the district and related interviews. The district did not provide us with any documentation beyond what had already been provided during the audit.
9. We are questioning the clarity of the board's policy DFC, *Grants From Private Sources*. The policy requires grant proposals for funds from private sources to be submitted to the board for evaluation and approval. Although the policy provides specific circumstances when the superintendent has the authority to approve grant applications for private funds, it is silent on the superintendent's authority to deny grant applications. Because situations similar to the one cited in the report will continue to occur, the policy needs to be clear about the superintendent's authority.
10. The district's February 1996 maintenance plan did not include estimated costs. The maintenance plan dated December 1997, some 20 months later, did include estimated costs. Our audit fieldwork was completed in December 1997.

11. We revised this finding as a result of the district's response. The district chose not to respond to the revised finding.
12. Oregon Department of Education's guidelines for school district accounting are clear for the treatment of co-curricular fees.

The district did not provide cost analysis documentation to show that the money it received to provide buses for the fire fighters directly reimbursed its costs.

13. The audit reviewed compliance and internal controls and, therefore, related to determining fiscal accountability.

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The mission of the Audits Division is to “Protect the Public Interest and Improve Oregon Government.” The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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Deputy Director

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This report is intended to promote
the best possible management of public resources.



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