



PERFORMANCE AUDIT REPORT

Wamego School District

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
February 1983**

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PERFORMANCE AUDIT REPORT

U.S.D. #320
Wamego

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Legislative Division of Post Audit
State of Kansas
Topeka



FOREWORD

State aid to school districts has risen dramatically in recent years, rising 342 percent since fiscal year 1973 to an estimated \$601 million in fiscal year 1983. To evaluate the State's approach to aid for school districts, the 1981 Legislature created a Task Force on School Finance to study various aspects of school district funding, especially State aid. In conjunction with this study, the Legislature directed the Legislative Division of Post Audit to conduct performance audits of school districts each year. Eight such audits were conducted in 1981 at the direction of the Legislative Post Audit Committee. Reports on those audits as well as a summary of all eight audits were presented to the 1982 Legislature.

In March 1982, the Legislative Post Audit Committee directed the Division to conduct four more school district audits in fiscal year 1983. As with last year's audits, these audits are to provide as clear a picture as possible of how each district is spending its money and managing its resources and programs. In addition, the Committee directed that the auditors place special emphasis on special education and transportation programs. For two of the four school districts--Utica and Wamego--the Division was unable to complete a review of special education programs because the districts denied auditors the access they needed to students' records to determine compliance with the State Plan for Special Education. Litigation is now pending on the matter of auditor access to those records. When the matter is resolved, the auditors will complete their work in this area and the results will be reported in an addendum to the Utica and Wamego reports.

This report covers the Wamego school district in northeast Kansas. The district covers 193 square miles and is located in parts of Pottawatomie, Wabaunsee, and Riley Counties. All four schools in the district are in the town of Wamego. The district had 1007.7 full-time equivalent students during the 1981-1982 school year, and enrollments are projected to remain stable or increase slightly during the next few years. In fiscal year 1982, the district had \$3.9 million in funds available to finance its operations and spent a total of \$2.8 million. State aid, local taxes, and beginning balances constituted most of the funds available, although local taxes have decreased as a percent of total funding since 1978 while State support and beginning balances have increased.

The district's financial condition appears sound. On average it spends only about 88 percent of its available General Fund moneys, which has resulted in large balances being carried over to the next year. Beginning balances for all funds have risen 364 percent since fiscal year 1978 to

\$954,318, and represented nearly one-fourth of the district's available funds in 1982. The size of these balances would enable the district to absorb a one-time four percent cut in State aid without a reduction in services.

In many ways, the district's operations compare favorably with other districts. Its General Fund expenditures per pupil were about 16 percent lower than the average per-pupil costs for other medium-sized districts. The district's overall staff level increased by about eight percent since 1978, primarily because two new schools were opened, but its ratio of students to classroom teachers was still comparable to the averages for similar-sized districts and Statewide. The district's teacher salaries are lower than in other medium-sized districts. Class sizes are small and some classrooms may be underutilized, but consolidating with neighboring districts does not seem reasonable because it would result in overcrowding. Further, Wamego's maintenance and operating costs and transportation costs per student were lower than the average costs for medium-sized districts.

The audit makes several recommendations regarding the financial management of the district. The auditors found that by investing more of its idle cash and converting its checking account to an interest-bearing checking account, the district could have earned an additional \$22,000 in investment earnings in fiscal year 1982. They also found that the district could improve its purchasing procedures by consolidating purchases for similar items into single purchase orders, standardizing frequently ordered items, and making additional use of local purchase orders. Some of the district's purchasing practices also do not comply with State purchasing laws, and the district has allowed special revenue funds to have negative balances even though the State's cash basis law and the School District Equalization Act do not allow it. Recommendations for improvement were made in each area. Other recommendations in the report relate to the district's compliance with State graduation requirements and documentation of income for free and reduced-price meal applications.

All of the report's recommendations, together with a brief description of the audit's major findings, are presented in the summary that follows this foreword. The report itself contains more detailed information about the district's financing and operations. The district's Board of Education reviewed a draft copy of the report and indicated general agreement with the report's recommendations, although it did take exception to the auditors' analysis of cash balances.

These audits are intended to give the Legislature a close look at the operations of certain school districts. Taken one by one, however, they may not present a complete picture of some of the themes and issues that run through the audits. At the conclusion of this series of school district audits, these broader themes and issues will be drawn together into a

summary report. That report will also follow up on recommendations made in last year's school district audits.

The cooperation of officials of the district during this audit is appreciated. Trudy Racine was the audit supervisor for this project. She was assisted by Ellen Rullestad, Linda Saiger, and Dan Walker. Assistance was also provided by other staff members during the course of the audit.


RICHARD E. BROWN
Legislative Post Auditor

Summary of Matters for Legislative Attention

The Wamego School District: A Brief Description

The Wamego school district (Unified District No. 320) is located in Pottawatomie, Wabaunsee, and Riley Counties in northeast Kansas. It covers 193 square miles. Agriculture is the primary industry in the district, although there is a major manufacturing plant in Wamego.

The district operates four schools--two elementary schools, one middle school, and one high school. All of them are located in Wamego, a town with a population of about 3,100. During the 1981-1982 school year, the district had a full-time equivalent enrollment of 1,007.7 students. Enrollment decreased by 79.9 students from the 1977-1978 school year, but preliminary figures for the 1982-1983 school year showed an increase of 24.8 students. Enrollments are projected to remain stable or increase slightly during the next few years. The district had 124.2 full-time equivalent staff positions during the 1981-1982 school year, including 64.8 regular classroom teachers. The teaching staff has increased by about nine percent since 1978.

Between fiscal years 1978 and 1982, the funds available to finance the district's operations rose from \$2.1 million to \$3.9 million, an increase of 85 percent. This increase is considerably greater than the inflation rate of 45.3 percent during the same period. State aid, local taxes, and balances carried over from the previous year constituted most of the funds available. Local and county taxes, federal aid, and other sources such as reimbursements for school lunches have decreased as a percent of the total funds available, while State support and beginning balances have increased.

The district's expenditures rose at a slower rate during the same period. Expenditures increased 54 percent from fiscal year 1978 to fiscal year 1982, or from about \$1.8 million to \$2.8 million. Part of the increase can be attributed to a substantial jump in bond and interest expenditures for major construction programs.

Financial Management

The district generally budgets the maximum allowable General Fund budget each year. A General Fund budget establishes the maximum amount that can be spent for many aspects of school district operations. It also

establishes the level at which the district's property owners will be taxed to finance those operations. In fiscal year 1978, the district's adopted budget was 94.5 percent of the maximum General Fund budget allowed. From fiscal years 1979 through 1982, the district adopted the maximum allowable budget. Expenditures over the five-year period averaged 92.7 percent of each year's adopted General Fund budget. But because the district takes in more revenues than it budgets, it also had a large amount of money left over each year. On average, the district spent only 87.9 percent of its available funds.

General Fund cash balances are larger than necessary for operations, but reductions in State aid could lower those balances. In all the district's funds, total balances carried over from previous years have increased 364 percent in five years, from \$205,474 at the start of fiscal year 1978 to \$954,318 at the beginning of fiscal year 1982. These funds represented nearly one-fourth of the total available in fiscal year 1982. Because these balances have risen so substantially and have grown so large in comparison to total funding, the auditors examined monthly balances to determine if they were excessive. The analysis was restricted to an examination of the General Fund. After making a number of adjustments and allowing a cushion for unforeseen expenditures, the auditors conservatively estimated that the lowest month-end balance in the General Fund was approximately \$130,000 more than the needed cushion. Although balances were high, the extra money could help the district through the four percent reduction in State aid made necessary because of shortfalls in State revenue. The auditors estimated that the reduction in State aid for the district and the special education cooperative it belongs to will total about \$47,000 in fiscal year 1983. Assuming that the district's excess balance this year is about the same as it was last year--or about \$130,000--the district would be able to absorb a one-time four percent cut without a reduction in services.

Transfers to special revenue funds were generally necessary. Several aspects of the district's operations, including special education, vocational education, transportation, and food service, are paid for out of special revenue funds that are separate from the General Fund. These funds receive direct support from the State in the form of categorical aid. In addition, between fiscal years 1978 and 1982, the district transferred \$951,025 from its General Fund into special revenue funds. In fiscal year 1982 alone, the district transferred \$191,900. Of this amount, only \$7,294 was not needed to keep the funds solvent. Because this figure represents just 3.7 percent of the total amount transferred that year, it appears that the district is not transferring money from the General Fund unnecessarily. However, transfers do have the effect of increasing the amount of State aid going to support programs that already receive State categorical aid because General Fund moneys include State equalization aid. In 1982, \$107,215, or 56 percent of the amount transferred to special funds, was State aid. Over the five-year period, State aid included in transfers to support special programs totaled nearly \$500,000.

Negative balances have been permitted in special revenue funds. The cash basis law and the School District Equalization Act do not allow moneys to be spent out of special revenue funds in excess of the actual amount available in the individual fund. However, the Wamego school district has permitted negative balances in several of its special revenue funds. Expenditures occurred throughout the year from these funds, and not all funds received adequate amounts of revenue from other sources regularly enough to maintain solvency. For example, on June 22, 1982, the district accounting records show five special revenue funds had negative balances totaling \$201,776.

Investment income could be increased. The district's investment earnings have risen 713 percent over the past five years to more than \$110,000. However, the district could have earned more interest if it had invested more of its idle cash and converted its checking account to an interest-bearing checking account. If both of these steps had been taken in fiscal year 1982, interest earnings would have increased by an additional \$22,000.

Purchasing procedures could be improved. The district could improve its purchasing procedures by consolidating purchases for similar items into single purchase orders, standardizing frequently ordered items, and making additional use of local purchase orders. In addition, although a change in State law to allow school districts more flexibility in making purchases from special industries is being recommended, the district should buy all available products from Kansas Industries for the Blind as required by the current statute.

Management of District Personnel and Educational Resources

Enrollment in the district is stabilizing after declines. Excluding special education students, the district's enrollment dropped seven percent to 986.7 full-time equivalent students between fiscal years 1978 and 1982. Its enrollment increased 2.5 percent to 1,011.5 students in 1983, and according to the Superintendent, enrollments are projected to increase over the next five years, especially in the lower grades.

The overall staff level has increased, but the district has about the same number of students per teacher as other similar-sized districts and more teachers per administrator. Since 1978, the district's overall staff level has increased by about eight percent. The number of administrators increased because two new schools were opened, and the number of teachers increased because of an increase in the English and foreign language departments. Still, the ratio of students to classroom teachers was 15.2:1, slightly higher than the average for other similar-sized districts but slightly lower than the Statewide average. Its ratio of teachers to administrators was 15.4:1, which was considerably higher than both the averages for similar-sized districts and Statewide.

Teachers' salaries are lower than in other medium-sized districts, while the principals' and Superintendent's salaries are higher. For fiscal year 1982, the average teacher's salary in the district was \$15,491. For all medium-sized districts the average was \$16,018, and the Statewide average was \$16,712. The average salary for the district's principals was \$26,778, which was higher than the average of \$25,303 for medium-sized districts but lower than the Statewide average of \$26,884. The Superintendent's salary of \$36,100 also fell in-between the averages for medium-sized districts and Statewide. Class sizes are small in Wamego. The average class size at the high school was 13.5 students. Course offerings exceed the State's minimum requirements overall, but the district's high school handbook shows it requires one-half unit less in social studies than the State requires.

Management of Facilities and Support Services

The district has a low number of students per classroom, but consolidating with neighboring districts does not seem reasonable. The auditors analyzed periods of classroom occupancy in the schools, and determined that the district had an adequate number of classrooms and some flexibility in scheduling their use, particularly in the high school, where there was an average of 11.7 students per classroom. They examined the possibility of consolidating the Wamego schools with those in surrounding districts, but found that any attempt to consolidate districts would likely cause overcrowding, particularly if enrollment in the Wamego school district rises as anticipated by district officials. Further, the district's maintenance and operating costs were lower on a per-student basis than the average costs for all medium-sized districts.

The district's transportation costs are lower than in comparable districts. Wamego provides transportation for more students than is required by law, but its reported cost of \$215 per student transported in fiscal year 1981 was the second lowest of nine districts with similar densities. Per-student costs for the seven districts higher than Wamego ranged from \$263 to \$547. The district owns its buses and provides all transportation services. Its current fleet appears to be well utilized.

The district absorbed federal cuts in the school lunch program by increasing meal prices. The district received \$72,093 in federal lunch aid in fiscal year 1981, but budget cuts reduced that aid for fiscal year 1982 to \$42,108. By raising its lunch prices, the district offset most of the fiscal year 1982 cut in federal lunch aid. Revenues from lunch receipts rose from \$65,750 in 1981 to \$89,824 in 1982.

Free and reduced-price meal applications require more scrutiny. The auditors noted that the district's process for approving applications for free or reduced-price lunches does not call for any documentation of the incomes reported. Despite the lack of federal approval for a method of

verifying information on applications for free or reduced-price meals, school districts do have the authority to request that applicants provide copies of wage stubs or other documentation of income. Requesting documentation of at least a sample of applicants would likely discourage applicants from understating their income.

Audit Recommendations and District Responses

The draft audit report was sent to the President of the Board of Education of the Wamego school district for review and comment. This procedure is followed in the preparation of all audit reports. It gives audited organizations an opportunity to point out any errors of fact, provide additional relevant information, and respond to the recommendations. A copy of the report was also sent to the Superintendent of the district.

Listed below are all recommendations made in the audit report, together with summaries of the district's response to them and Legislative Post Audit's replies. The full text of the district's response is presented in Appendix C of this report.

Ensuring That Special Revenue Funds Do Not Have Negative Balances

To fully comply with the cash basis law and School District Equalization Act, the Wamego school district should monitor the balance of each special revenue fund more closely, and make transfers to those funds as needed from the General Fund.

District response. The district stated that, at the beginning of fiscal year 1983, the Superintendent had directed that transfers to special budgets would be made as needed to keep the funds solvent, and that this directive has been followed.

Increasing Investment Earnings

1. To increase investment earnings, the Wamego school district should set a limit on its checking account balance and invest amounts above that limit in higher-yielding investment instruments, such as certificates of deposit.

2. The Wamego school district should convert its checking account to an interest-bearing account. In converting this account, the district should also ensure that it earns the U.S. Treasury Bill rate of interest on its certificates of deposit, by taking its investments to other institutions--such as the local savings and loan or institutions outside of the district--if necessary.

District response. The district replied that the advantages of holding some district funds in interest-bearing checking accounts had been studied during fiscal year 1982, but that the Board had decided at that time to accept a total package of investments offered by the bank that did not include an interest-bearing account. The district pointed out that the bank in which it maintains its checking account has now opened a type of savings account that is more liquid and pays the weekly money market rate. "The advantages of this program should meet the spirit of Post Audit's recommendations," the district said. It also said that "administration has made every effort to monitor the flow of money" so it will be placed in investments offering the highest rate of return.

Complying With State Purchasing Laws

1. The Wamego school district should adhere to State law by obtaining bids for all goods and materials that cost more than \$5,000.
2. The Legislature should consider amending State law to allow school districts to purchase items from regular vendors instead of special industries when doing so can decrease their cost. Prior to any change in State law, the Wamego school district should purchase all items from Kansas Industries for the Blind or from Rehabilitation Services when such items are available.

District response. According to the response, "the district has made a concerted effort to obtain competitive bids on all significant expenditures, including those over \$5,000." It stated that, for items costing less, the district has also either obtained bids or has comparison shopped. Although the district said it pledged "a good faith effort to follow the statute regarding purchases from state industries," it added that it would "welcome a change in statute which would make such purchasing on a more competitive basis."

Improving the Efficiency of Purchasing Procedures

To ensure greater efficiency in purchasing procedures, the Wamego school district should:

1. Coordinate purchases of supplies with its schools and departments, combining purchase orders as much as possible.
2. Establish guidelines for using local purchase orders for all local purchases below a specified amount.

District response. The district said it makes an effort to pool supply orders in the late spring and early summer months for possible savings. It cited two exceptions. First, elementary classroom teachers have budgets that they may spend during the course of the school year. And second, art teachers will order items separately "because of their preference for the merchandise from a particular vendor." The response went on to say that in fiscal year 1983, the district "has sought to require the use of local purchase orders for items which can more easily be obtained locally."

Complying With Minimum State Graduation Requirements

To comply with K.A.R. 1982 Supp. 91-28-7, the Wamego school district should ensure that its high school requires at least the minimum credit units in each course area designated by the State for graduation from a high school. Those requirements should also be correctly documented in the Wamego High School Student Handbook.

District response. The district stated that its graduation requirements do meet or exceed State requirements. It indicated that the requirement of only one unit of social studies at Wamego High School instead of one and one-half units was an error in the handbook and would be corrected with the next printing.

Requesting Documentation of Income for Free and Reduced-Price Meal Applications

The Wamego school district should request documentation of income from at least a sample of applicants for free and reduced-price meals to discourage applicants from understating their income.

District response. The response stated that the district "follows very closely procedures established by federal law in processing applications." It went on to say that "when federal regulations for verification of income data are approved, those procedures will be followed." Legislative Post

Audit would point out that, despite the lack of federal approval for a method of verifying information on applications, school districts do have the authority to request applicants to provide copies of wage stubs or other documentation of income. Such requests of at least a sample of applicants would likely help discourage all applicants from understating their income.

Matters Remaining for Legislative Consideration

The Wamego school district agreed to implement most recommendations. However, the district did indicate there may be times when it could not consolidate purchases for possible savings, and implied it would not take any action to begin verifying income data on free and reduced-price lunch applications until federal regulations are approved.

The report includes a recommendation that is directed to the Legislature. It calls for the Legislature to consider amending State law to allow school districts to purchase items from regular vendors instead of special industries when doing so can significantly decrease their costs. The district's response favored such a change.

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CHAPTER I

INTRODUCTION

State aid to school districts has risen dramatically in recent years. To evaluate the State's approach to aid for school districts, the 1981 Legislature created a Task Force on School Finance to study various aspects of school district funding, especially State aid. In conjunction with this study, the Legislature directed the Legislative Division of Post Audit to conduct performance audits of school districts each year. Eight such audits of districts in all enrollment categories were conducted in 1981 at the direction of the Legislative Post Audit Committee in 1981. Reports on those audits as well as a summary of all eight audits were presented to the 1982 Legislature.

In March 1982, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct four more school district audits for the 1983 Legislative session. The Committee considered geographic location and enrollment sizes, and chose the following districts for the audits: Kansas City, Kansas (large enrollment category), Wamego (medium enrollment category), Phillipsburg (medium enrollment category), and Utica (small enrollment category). In its May 1982 meeting the Committee further directed that the audits provide the same level of review as the 1981 audits provided, but should also place special emphasis on special education and transportation programs. This report contains the auditors' findings and recommendations resulting from a performance audit of the Wamego School District.

Audit Objectives and Methods

This audit of the Wamego school district is a performance audit. Performance audits generally address the questions of whether programs are operated as intended by the Legislature, and whether those programs are operated as efficiently and effectively as possible. By contrast, financial audits concentrate on whether or not financial records are presented fairly and accurately. By law, each school district is required to have an annual financial audit conducted by a licensed municipal accountant or certified public accountant. Rather than duplicate this financial audit work, Legislative Post Audit reviewed the fiscal year 1981 financial audit report of the Wamego school district to determine whether the district was in compliance with financial auditing requirements.

The performance audit of the Wamego school district addresses four questions:

1. Is the district effective in managing its budget and other financial resources to ensure that resources are managed efficiently and its operating costs minimized?
2. Is the district managing its personnel, facilities, and other resources in an efficient and economical manner?
3. Is the district operating programs or providing services that are unnecessary or that could be operated in a more cost effective manner?
4. How is State aid for special education in the district determined, is this aid used only to benefit special education students, are special education students placed in the proper program, and are special education programs adequately evaluated?

To answer these questions, the auditors conducted a number of different kinds of research and analysis. The question dealing with the effective management of the district's budgets and other financial resources were answered through an analysis of the district's budgets. The auditors determined such factors as the mix of funding over the years, expenditure trends, and the degree to which budgets reflect financing needs. Auditors also reviewed the district's special use and activity funds to determine how those funds were used and whether unnecessary transfers are being made into the special funds. They examined the district's cash management and investment activities to determine whether the district is complying with the law and whether the maximum amount of interest is being earned on funds available for investment. They reviewed the district's purchasing policies and practices to determine whether they are reasonable and comply with State laws. And they reviewed the most recent financial audit report of the school district to make sure the district is in compliance with requirements for such audits.

To answer the question dealing with efficient management of district personnel, facilities, and other resources, the auditors reviewed staffing levels to determine if the district appeared to be overstaffed in any areas. They reviewed the number of schools, capital outlay costs, maintenance costs, and use of space to determine if all facilities are needed and whether space is used efficiently. To determine whether the district is operating programs or providing services that may be unnecessary, over- or underutilized, or too expensive, the auditors reviewed areas in which costs have increased rapidly or appear excessive in comparison with other districts, analyzed the courses offered by the district, and analyzed transportation and food service programs provided by the district.

Finally, to answer the questions concerning special education, the auditors reviewed the budgets of the special education cooperative that includes the Wamego school district and examined the method of calculating State aid for the cooperative. The auditors also attempted to examine operations in the district to determine compliance with the State Plan for Special Education. However, district officials denied the auditors access to student records. Because this matter was still in litigation at the time the audit was issued, the auditors were unable to complete their testwork in the area of special education. When this matter is resolved, the auditors will complete their work in this area.

Organization of the Report

The remainder of this chapter summarizes the State's role in local education and introduces the Wamego school district. Chapter II describes the trends in the district's finances over the past five years. Chapter III addresses the auditors' findings concerning the district's financial management practices. Chapter IV covers the district's use of resources for education while Chapter V evaluates the efficiency of certain support services, such as maintenance and transportation. A sixth chapter on special education was not included in this report because of the pending litigation on the matter of auditor access to student records. When the matter is resolved, an addendum to the report will be written.

State Funding for School Districts

Article 6 of the Kansas Constitution requires the Legislature to establish and maintain public schools and educational institutions in Kansas and to make suitable provisions for financing those schools and institutions. The Constitution mandates that no tuition, except for fees and charges specifically authorized by law, can be charged any students required to attend public schools. Over the past 50 years, several legislative decisions have been made to substantially increase State financial support for public elementary and secondary schools. The figure on the next page summarizes the key changes in State funding.

Currently, most State aid to school districts is paid under the provisions of the School District Equalization Act of 1973. The original impetus behind this Act was a California Supreme Court ruling that California's school finance system--which depended on local property taxes--discriminated against the poor "because it makes the quality of a child's education a function of the wealth of his parents and neighbors". As a result of this ruling, the Kansas Legislature appointed an interim committee to consider alternatives to the property tax method of funding public schools.

PROGRESS OF STATE FUNDING FOR SCHOOL DISTRICTS

- Before 1937 - Public schools received only small distributions from the State annual school fund for general purposes and for vocational education.
- 1937 - Retail sales, consumers' use, and cereal malt beverage taxes provided State aid for elementary schools.
- 1945 and 1947 - Further State aid for elementary schools provided additional across-the-board property tax relief.
- 1949 - Equalization aid program established for elementary schools. School district wealth, or ability to fund public school operations, was based solely on assessed property valuation or adjusted valuation, and by a two-mill deduction in computing State aid. Transportation allowance was also paid.
- 1955 - Equalization aid established for high schools, but without a transportation allowance.
- 1959 - Separate emergency aid was distributed for all grades one through 12 at a rate of \$6 per pupil to help support increasing enrollments and rising costs.
- 1959-1965 - Emergency aid increased four times, reaching a high of \$30 per pupil.
- 1965 - School Foundation Finance Program replaced emergency aid. County economic index was used to measure local ability, and included an allowance for transportation. Earlier tax levies were replaced with a single county-wide levy of 10 mills on adjusted property valuation. The law also repealed all statutory rate limits on property tax levies for operating purposes, establishing in their place new restrictions on increases in school budgets.
- 1969 - Supplemental State Aid to Schools enacted, based on the number of students and the number of certified employees, and adjusted to reflect each district's adjusted valuation per pupil.
- 1973 - School District Equalization Act passed, which provides for the distribution of State general aid, transportation aid, and an income tax rebate of 20 percent. General State aid is based on each school district's budget per pupil, and is adjusted depending on certain other State, local, and federal moneys received.

Before the interim committee reached a decision, a suit was filed in Kansas (Caldwell v. Kansas), challenging the State's school funding system. A Kansas district court ruled that the system must be restructured so that the amount of money spent to educate a child was not dependent on a school district's wealth. The Equalization Act passed by the 1973 Legislature satisfies this mandate, providing relatively more State funding for poorer districts and less funding for wealthier districts that are better able to support education through local funding sources.

The Equalization Act provides for the distribution of State general aid, transportation aid, and an income tax rebate of 20 percent. The Act bases general State aid on each school district's budget per pupil, and adjusts the amount of State aid received to reflect district wealth, local tax effort, the amount received by the district from an income tax rebate, and the amounts received from certain federal funds. Unless the Legislature specifies differently, school districts can annually increase their General Fund budgets per pupil by between five percent and 15 percent, depending on the size of the district's budget in the previous year. Districts that budgeted low in the previous year are allowed higher increases. The districts then cannot

spend more than the General Fund budget they adopt without losing future State aid.

In addition to the aid provided under the School District Equalization Act, the State also provides several types of categorical aid. During fiscal year 1982 that aid was as follows: Special Education Aid of \$46.6 million, Aid for Driver Education of \$1.3 million, Aid for Vocational Education of \$752,000, Food Assistance of \$2.6 million, Aid for Adult Basic Education of \$52,000, Aid for Bilingual Education of \$466,000. In addition, the State paid the employer's share of Kansas Public Employees Retirement System contributions for school district employees totaling \$35.5 million.

The Equalization Act and categorical aid have increased total State aid to school districts by over \$450 million since adoption of the 1973 Act. In fiscal year 1973, the year before the Act took effect, total State aid to school districts was \$136 million. For fiscal year 1983, it is estimated to be \$601 million, an increase of 342 percent. Total State aid, which increased an average of 17 percent per year since the Act was adopted, is expected to increase 13 percent between fiscal years 1982 and 1983.

Department of Education's Role in Administering State Education Programs

The State Board of Education has overall responsibility for the State's role in elementary and secondary education, and the Board appoints a Commissioner of Education to carry out the day-to-day administration. The Commissioner directs the Department of Education, which has three major divisions: Financial Services, Education Services, and Agency Services. The Division of Financial Services administers the distribution of State and federal aid to unified school districts, community colleges, area vocational-technical schools and Washburn University. The Division of Education Services provides curriculum support to local education agencies, administers the State's special education program, accredits schools, approves college programs for teacher training, and provides support for State planning. The Division of Agency Services provides technical services for the Department and administers State and federal food assistance programs as well as teacher certification. The Department's operating budget for fiscal year 1982 was \$6,215,871, about \$3.3 million of which was from the State General Fund. Most of the remaining funds came from the federal government.

Unified School Districts in Kansas

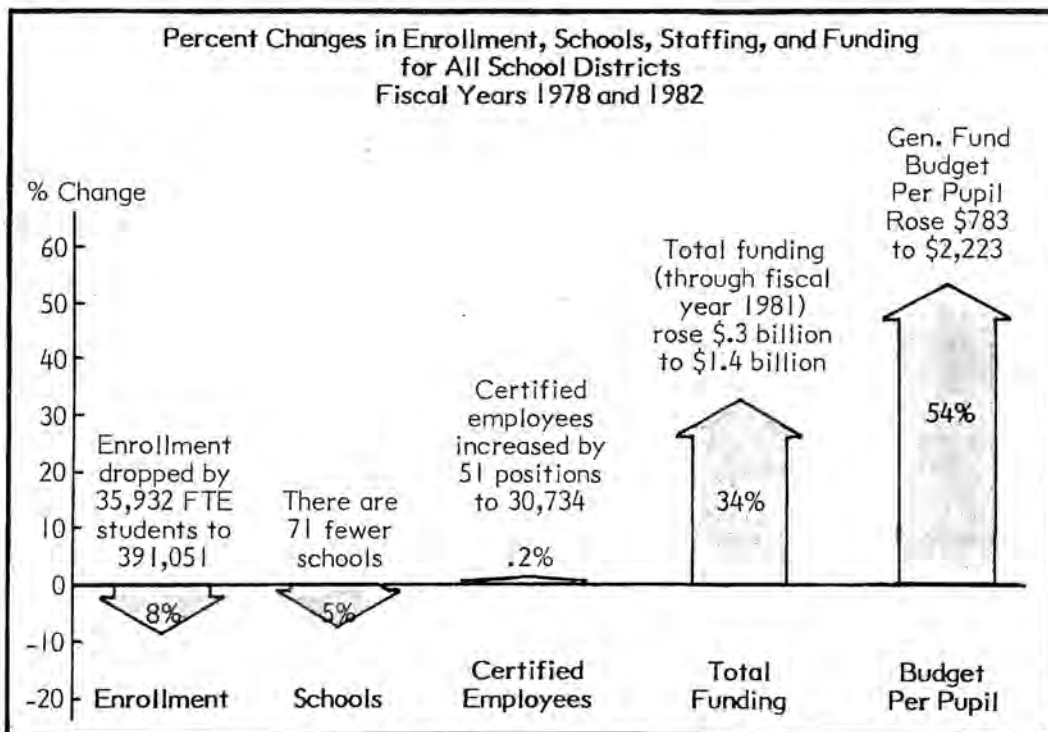
The number of school districts has declined dramatically since 1900, when there were 9,284 school districts. A series of reorganizations in 1945, 1963, and 1965 gradually reduced the number of districts until there were 349 in 1966.

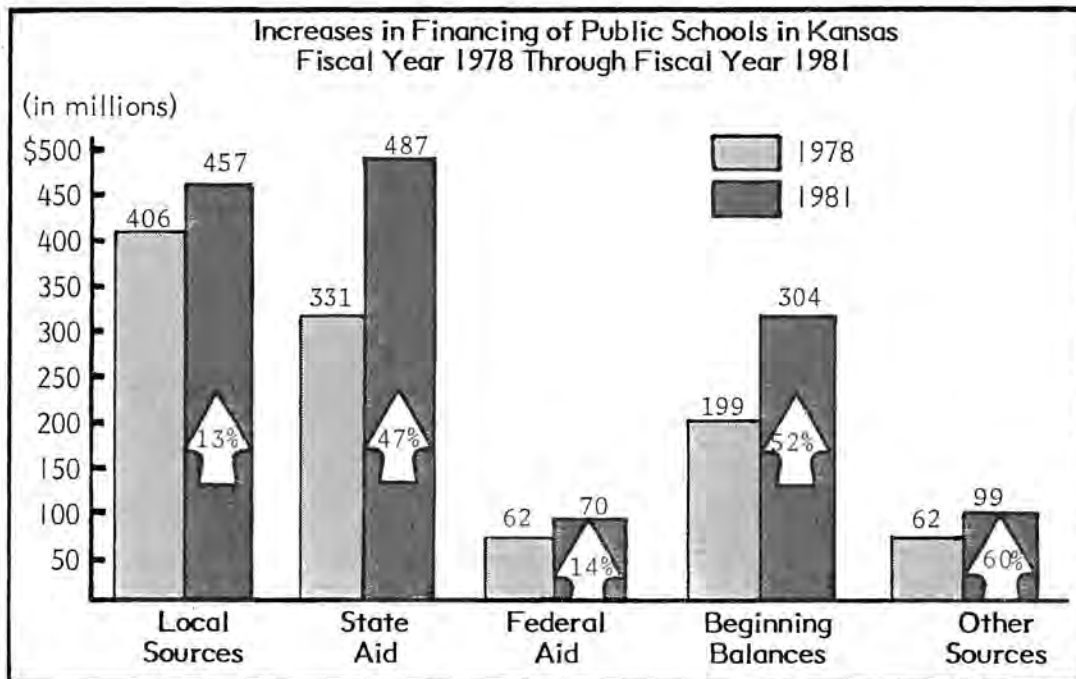
There were 305 school districts in Kansas in fiscal year 1982, each of which was governed by a locally elected school board. These boards must appoint a superintendent, clerk, and treasurer to administer the public schools in their districts. They may also appoint one or more assistant superintendents, supervisors, and principals.

During the 1981-1982 school year, a total of 391,052 full-time equivalent students were enrolled in the State's 1,532 elementary, junior high, and high schools. On a full-time equivalent basis, the school districts employed 26,178 classroom teachers, 2,070 administrators (including superintendents and principals), and 2,486 other certified personnel like curriculum specialists, librarians, audio-visual technicians, guidance counselors, and nurses. In addition, the districts employed 17,274 support personnel, including cooks, janitors, bus drivers, and clerical help.

In fiscal year 1981, State aid contributed 35 percent of the school districts' available funds, and local sources of funding (primarily property taxes) contributed 32 percent. Beginning balances accounted for 21 percent of total revenues, federal funds contributed five percent, and other sources accounted for seven percent.

As the figure below shows, enrollment levels and the number of schools operated by the 305 districts have declined somewhat since the 1977-1978 school year. At the same time, the number of certified



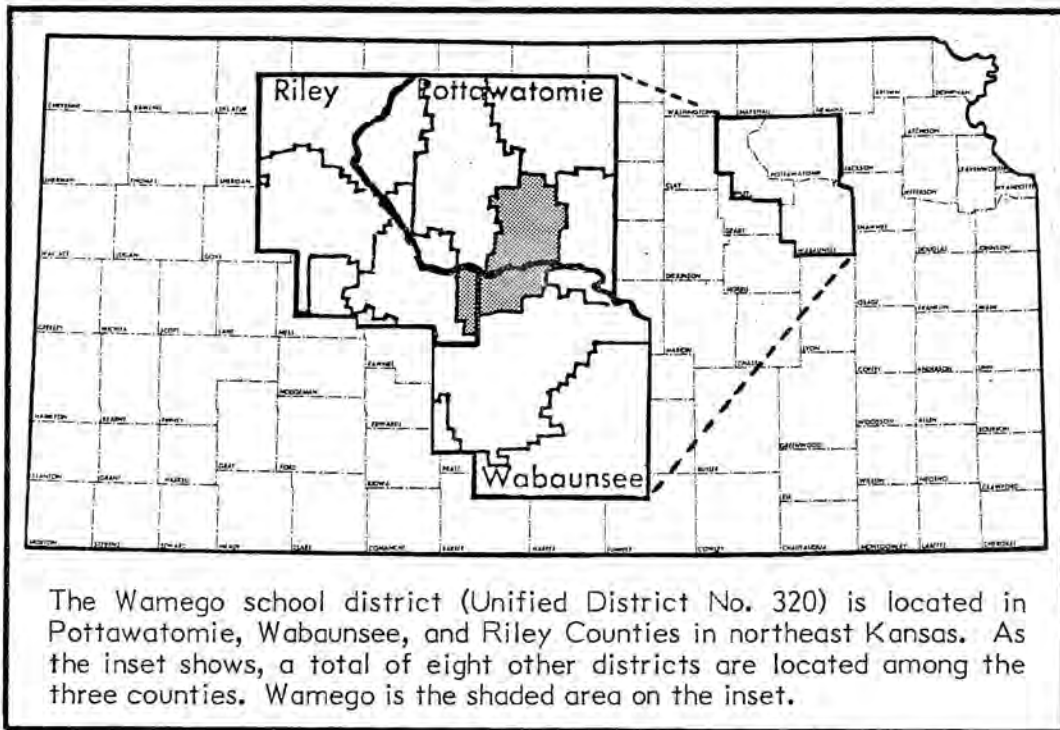


employees rose slightly, while both total funding and the General Fund budget per pupil increased considerably. As the accompanying figure shows, the largest sources of funding for the school districts are local funds (primarily property taxes) and State aid. Between fiscal years 1978 and 1981 (the most current data available) the largest increases in available funds were in State aid (up 47 percent), beginning balances (up 52 percent), and other sources such as interest on idle funds and user charges (up 60 percent).

U.S.D. #320 Wamego School District

The Wamego school district (Unified School District No. 320), as shown by the accompanying map, is located in Pottawatomie, Wabaunsee, and Riley Counties in northeast Kansas. The district covers 193 square miles and is the second largest school district in Pottawatomie County. The district has four schools--two elementary schools, one middle school, and one high school. All are located in Wamego, a town with a population of about 3,100. Other districts in the county include Kaw Valley, Onaga-Haversville-Wheaton, and Westmoreland. Additional neighboring districts include Alma and Wabaunsee, in Wabaunsee County, and Riley County, Manhattan, and Blue Valley in Riley County.

Agriculture is the primary industry in the school district, although there is a major manufacturing plant in Wamego. In addition, Jeffrey Energy Center, a major electrical facility, is located a few miles north of



Wamego. Although Jeffrey Energy Center is not located in the school district, it provides employment to a number of district residents. Kansas State University in Manhattan is only 14 miles west of Wamego and also employs a number of district residents.

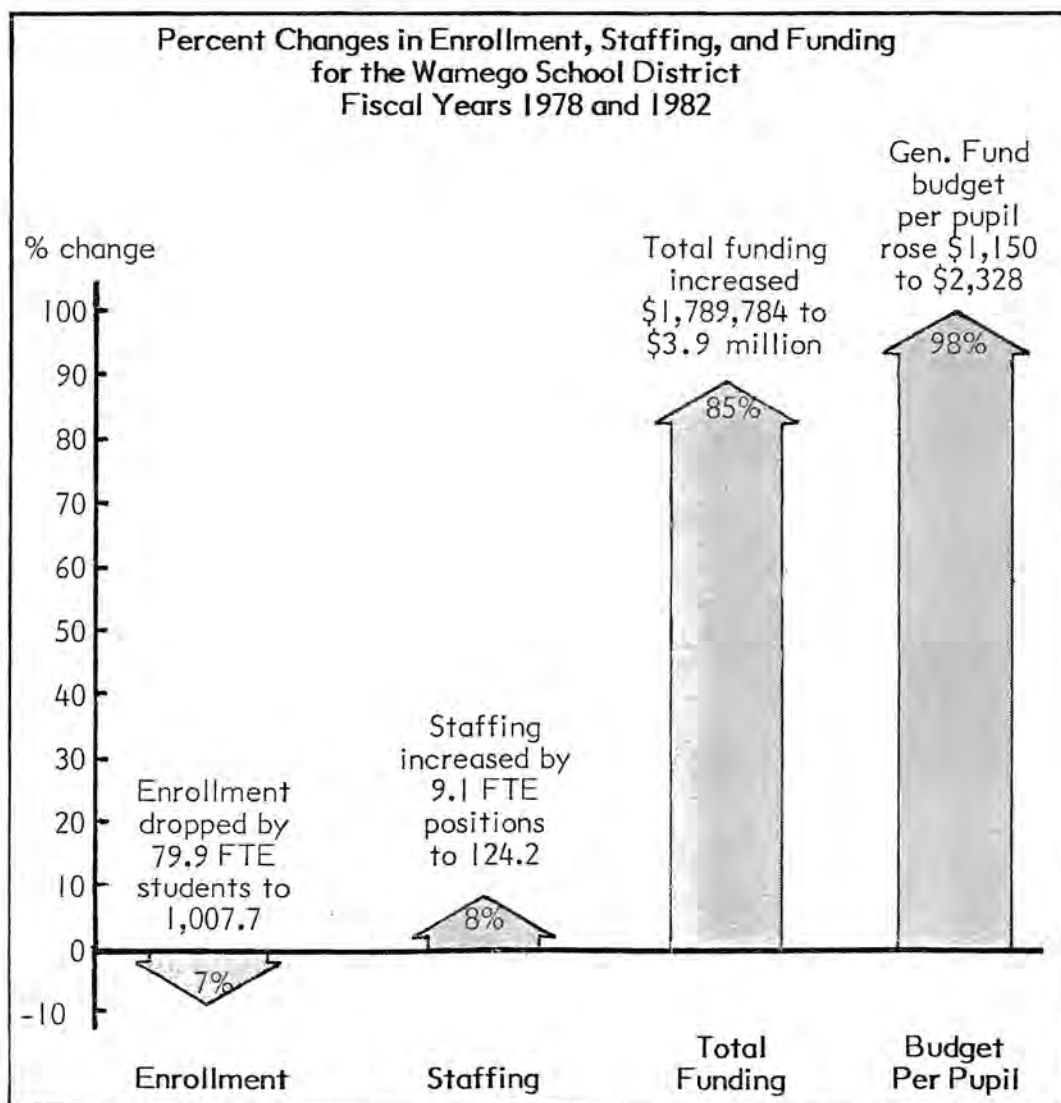
During the 1981-82 school year, 1,007.7 full-time equivalent students were enrolled in the Wamego school district. Enrollments included 550.5 full-time equivalent students in the two elementary schools, 178 in the middle school (grades seven and eight), and 258.2 in the high school. In addition, there were 21 full-time equivalent students enrolled in special education programs. Four of the high school students received credit for enrollment in a vocational program at Manhattan Area Vocational-Technical School.

During that same school year, the district employed 124.2 persons on a full-time equivalent basis, including the Superintendent, 64.8 full-time classroom teachers, 7.0 special education teachers, 3.6 principals, .6 assistant principals, 5.5 teacher aides, 2.5 special education aides, 4.2 non-teaching certified personnel, 34.5 support personnel, and a half-time special education director.

Like many other school districts in Kansas, the Wamego school district has experienced enrollment declines. Full-time equivalent enroll-

ment decreased by 79.9 students (7.35%) from fiscal years 1978 to 1982. However, it increased by 24.8 (2.5%) students to 1,032.5 as of September 15 in the 1982-83 school year. It is anticipated that enrollment will remain stable or increase slightly during the next few years, largely due to an influx of young families.

Even though enrollments have decreased overall, the number of personnel employed by the school district has increased. This increase has occurred primarily because of an increase in the English department and a fluctuation in the foreign language department. The accompanying graph presents enrollment, staffing, and funding figures for the district.



CHAPTER II

TRENDS IN DISTRICT FINANCING

This chapter reviews the Wamego school district's financing between fiscal years 1978 and 1982. As a percentage of total funds, State aid increased from 34 percent in fiscal year 1978 to just over 38 percent of the total in fiscal year 1982. During the same period local and county taxes declined from 38 percent to 29 percent of total funds. A more detailed review of sources of funds follows.

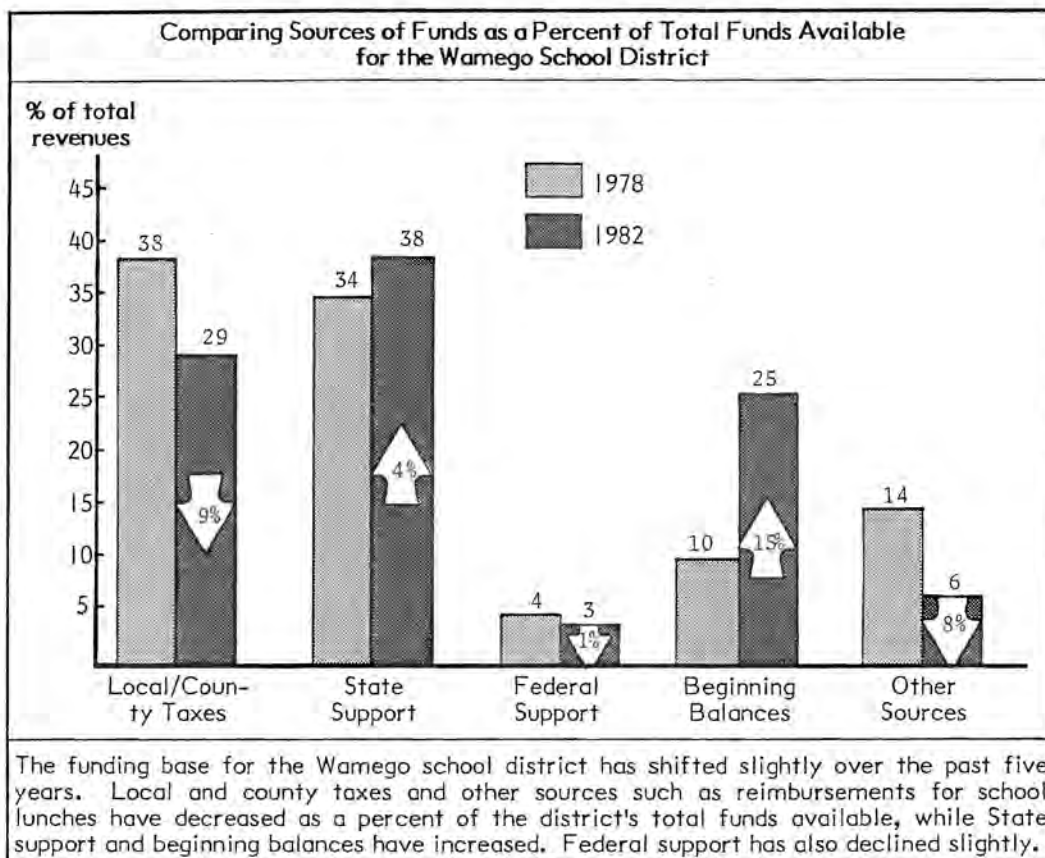
Sources of Funds

The Wamego school district obtains funds for its operation from eight sources--balances carried over from the previous year, local taxes, county taxes, State funds, federal funds, reimbursements which include textbook rentals, and student and adult lunch receipts, interest, and miscellaneous sources. The following table shows the changes in the district's sources of funds over a five-year period. Since fiscal year 1978, total funds available for the district's use have increased 85 percent. The increases have averaged about 17.7 percent a year.

**Sources of Funds Available for Use
Wamego School District (a)**

<u>Sources of Funds</u>	<u>Fiscal Year</u>		<u>% Change 1978-1982</u>
	<u>1978</u>	<u>1982</u>	
Beginning Balance	\$ 205,474	\$ 954,318	364.4%
Local Taxes	755,203	1,022,893	35.4
County Sources	46,924	97,962	108.8
State Funds	722,837	1,497,077	107.1
Federal Funds (b)	92,514	98,267	6.2
Reimbursements (c)	83,376	116,513	39.7
Interest	13,617	110,681	712.8
Miscellaneous/Other	192,747	5,205	(97.1)
Total (d)	<u>\$2,112,692</u>	<u>\$3,902,916</u>	<u>85.0%</u>

- (a) Funds available to the Special Education Cooperative are not included in this chart.
- (b) Includes funds for the off-budget Title I and Title IV programs.
- (c) Includes textbook rental fees and receipts from the school lunch program.
- (d) In addition, \$279,050 was available to the district in an off-budget Special Capitol Projects Fund in 1982.



The 85 percent increase is considerably greater than the inflation rate of 45.3 percent during the same period, based on the Consumer Price Index. The most significant changes in the funding picture are the large increases in interest moneys, beginning balances, State funds and county taxes. While these sources of revenue increased significantly, and thus help to account for the 85 percent increase in available funds, local property tax revenues increased at a rate less than the inflation rate and federal aid increased only slightly.

Local Property Tax Support Has Increased Moderately

Local property tax support for the district has increased 35.4 percent in five years, from \$755,203 to \$1,022,893. Property tax support provided its largest source of funds in fiscal year 1981, when these revenues amounted to \$1,026,869. Except for the slight decline (less than one-half of one percent) in revenue occurring in fiscal year 1982, this source of funds has generally increased slightly each year. Assessed valuation declined in only one year (fiscal year 1981). This decline of 4.7 percent from the 1980 assessed valuation helps to explain why 1982 property tax revenues were slightly reduced from the 1981 levels.

The moderate increase in local property tax support has occurred because the district has been able to keep the increase in the mill levy at 17.4 percent during the five-year period. This slow growth in the property tax rate has come about because of substantial increases in State aid as well as large increases in interest and in beginning balances. In addition, expenditure increases have only been 54.1 percent during the period, while revenues to support those expenditures have risen by 85 percent.

As the accompanying table shows, the total mill levy for the district was 57.16 in fiscal year 1982. This compares to a mill levy of 48.69 in fiscal year 1978. Assessed valuation was just over \$18 million in 1982 compared to \$16 in fiscal year 1978, an increase of 12.2 percent. At the 1982 mill levy rate, a taxpayer in Pottawatomie County, owning a home with a market value of \$25,000, which would be assessed at \$2,250--or 9 percent--would pay about \$128 in property taxes to finance the school system. Someone owning a \$50,000 home would pay \$256.

The Wamego mill levy for the fiscal year 1982 General Fund (34.09) ranked 64th lowest of all districts in the State, placing it in the 21st percentile. However, the percent of market value at which property is assessed varies considerably. To compare property taxes in Wamego with other districts, it is necessary to use the adjusted tax rate. The adjusted tax rate is determined by lowering the mill levy to the rate needed to produce current revenues if the property were assessed at 30 percent of fair market value instead of at a lower rate. Using this method, Wamego's General Fund tax rate would have been 11.51 for fiscal year 1982, ranking it 49th lowest, placing it in the 16th percentile. The average for all districts was 14.10.

**Wamego School District
Tax Rates for Fiscal Years 1978 to 1982**

<u>Fund</u>	<u>School Year</u>				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
General	35.75	45.89	45.45	34.48	34.09
Capital Outlay	4.00	4.00	4.00	4.00	3.96
Bond and Interest	-0-	-0-	5.27	17.67	19.11
Other:					
Social Security	4.65(a)	--	--	--	--
Vocational	2.00(a)	--	--	--	--
Special Education	1.50(a)	--	--	--	--
Workmen's Comp.	.23(a)	--	--	--	--
Unemployment Ins.	.56(a)	--	--	--	--
TOTAL	<u>48.69</u>	<u>49.89</u>	<u>54.72</u>	<u>56.15</u>	<u>57.16</u>

- (a) After fiscal year 1978, special levies could not longer be assessed for Social Security, vocational education, special education, or workmen's compensation. They were incorporated into the General Fund mill levy.

Due to action by the 1982 Legislature making farm machinery tax exempt, over \$1.2 million will be removed from the district's assessed valuation in 1983. If this exemption had been in effect in fiscal year 1982, the district's mill levy would have needed to be 4.22 mills higher to generate the same amount of revenue.

County Motor Vehicle Taxes Have Increased Significantly

Taxes from the county increased 108.8 percent during the five-year period. The county foundation tax, the main source of county tax support in 1978, was eliminated in fiscal year 1979. In fiscal year 1979, the district received minimal county funds. By fiscal year 1982, however, revenues from the county more than doubled their earlier levels when motor vehicle taxes became part of the county taxes.

State Support Has Increased Substantially

State support over the five-year period rose 107.1 percent because of increases in State equalization aid. The largest increases in State aid occurred in the General Fund (119 percent). The nearly \$770,000 increase in the General Fund amounted to over 99 percent of the total increase in State aid. Increases in the General Fund are limited by budget controls on the General Fund. However, Wamego has been allowed to increase its General Fund budget by about 15 percent in each of the past five years. As a consequence, the district's budget per pupil has increased by 97.6 percent. Because the budget per pupil is a prime factor in the formula for computing State aid, this helps to explain why State aid has grown so much over the past five years.

In addition to the State aid included in the budget, the State has also provided \$68,578 for the employer's share of the Kansas Public Employees Retirement System contribution in fiscal year 1982.

Beginning Balances Have Increased Significantly

During the five-year period, Wamego experienced significant increases in its beginning fund balances--those unspent funds carried over from the previous year. The district's beginning balances increased 364 percent, from \$205,474 in fiscal year 1978 to \$954,318 in fiscal year 1982. In fiscal year 1978, beginning balances accounted for 9.7 percent of total available funds. By fiscal year 1982, they had risen to more than 24 percent of available funds. Most of the money in beginning balances is unspent State and local funding, and the effect of the balances is that less new local money needs to be obtained to finance the district's operations.

Federal Funds Have Increased Slightly

Federal funds received by the district have fluctuated over the five-year period, but overall have increased by 6.2 percent, from \$92,514 in

fiscal year 1978 to \$98,267 in fiscal year 1982. About 43 percent of these funds are for the school lunch program. The federal government reimburses the district for part of the price of each lunch, paying a larger share of the price of a lunch for students whose families meet income eligibility requirements for free or reduced-price lunches. In fiscal year 1982, the district served more than 105,000 student lunches. The district also received federal funds for vocational education and other educational programs, including the Title I reading program, and Title IV education block grant programs. These funds, which are not included in the district's budget and are not subject to State-imposed expenditure limitations, amounted to about \$50,758 in fiscal year 1982.

Other Sources Have Changed at Varying Rates

Interest moneys, which are the returns on the district's investment of its idle funds, increased 713 percent during the five-year period. This large increase was due to both higher balances available for investment and higher interest rates. During that same period, reimbursements from the textbook rental program remained relatively constant over the period. Food service lunch fees increased by 57.6 percent and the other miscellaneous revenues fell from \$192,747 in fiscal year 1978 to \$5,205, a drop of over 97 percent. This occurred primarily because of declines in the receipts of the Capital Outlay Fund due to the capital construction projects undertaken by the district in 1979.

Uses of Funds

The auditors also examined the district's uses of funds for fiscal years 1978 through 1982. The following table summarizes district expenditures for these years, which rose by a total of 54.1 percent from \$1.8 to \$2.8 million. During this period, expenditures rose an average of 12.9 percent a year.

Expenditures Increased at Varying Rates

As shown in the accompanying table, expenditures from the different funds rose at varying rates in the district over the five-year period. Expenditures from the General Fund increased almost 54 percent, just under the rise in total expenditures. Expenditures from the special revenue funds increased 54 percent. This is inflated because of a 1,077 percent jump in bond and interest expenditures over the five-year period. This expenditure jump was the result of the major construction programs. The remaining special revenue funds actually decreased approximately two percent over the five-year period.

Expenditures from several other funds changed at different rates, which could generally be explained. The increase of 28 percent in transportation expenditures resulted primarily from salary increases. The

**Uses of Funds
Warrego School District**

	<u>Fiscal Year</u>		<u>Percent Increase 1978-1982</u>
	<u>1978</u>	<u>1982</u>	
General Funds (a)			
Regular (b)	\$1,199,193	\$1,849,548	54.23%
Federal Programs (c)	35,104	45,644	30.03
Total	<u>\$1,234,297</u>	<u>\$1,895,192</u>	<u>53.54%</u>
Special Funds			
Special Education	51,800	28,335	(45.30%)
Food Service	127,353	137,540	8.00
Transportation	116,717	149,170	27.80
Capital Outlay (b)	184,103	133,678	(27.39)
Vocational Education	51,907	69,380	33.66
Bond and Interest	31,099	365,985	1,076.84
Driver Training	15,540	15,269	(1.74)
Textbook Rental	17,286	26,213	51.64
Bilingual Education	-0-	397	
Adult Education	520	-0-	
Total Expenditures	<u>\$1,830,622</u>	<u>\$2,820,159</u>	54.05%

- (a) These expenditures do not include transfers made into school district special revenue funds. Under the law, transfers from the General Fund are considered as operating expenses. However, if transfers are included, they would overstate actual operating expenditures for the district. In addition to transfers from the General Fund, transfers were also made from the Capital Outlay Fund to the Transportation Fund to buy buses, from the Special Education Fund to the Special Education Fund, and in one year from the Adult Education Fund to the Capital Outlay Fund.
- (b) In addition, \$279,050 was expended from the special capital project fund, an off-budget item.
- (c) These federal revenues are shown separately because they are not included in expenditures controlled by General Fund budget limitations.

34 percent increase in vocational education expenditures was due to higher teacher salaries and replacement of equipment. Textbook rental expenditures increased because of increased disbursements for textbooks. Special education expenditures decreased 45.3 percent primarily due to smaller transfers to the Special Education Cooperative.

The 53.5 percent increase in General Fund expenditures is somewhat higher than the rate of inflation during the period of 45.3 percent. It is also considerably less than the increase in available funds, which rose 85 percent over the five years. The district's budget per pupil has increased from \$1,178 to \$2,328 over the five years, an increase of 97.6 percent. This is 52.6 percentage points higher than the inflation rate for the five-year period.

Per-Pupil Costs Were Lower Than Average

To determine how the district's General Fund expenditures compared with those of other districts, the auditors compared the per-pupil costs for Wamego with the average per-pupil costs for all districts with enrollments of 400 to 1,600. This comparison was made for the district's General Fund because most school district moneys are spent out of this Fund. It was also made for fiscal year 1981, the most recent year for which expenditures by category were available. As the accompanying table shows, per-pupil costs in the Wamego school district were about 16.2 percent lower than the average per-pupil costs in districts with an enrollment of 400 to 1,600.

Per-Pupil Costs General Fund Expenditures Wamego and Similar Districts Fiscal Year 1981

<u>Expenditure Categories</u>	<u>Wamego</u>	<u>Districts with 400-1,600 Enrollment</u>
Administration	\$ 54	\$ 101
Instruction	1,114	1,277
Operation and Maintenance of Schools & Facilities	201	270
Fixed Charges	148	177
Student Body Activities		
Community Services and Capital Outlay	72	63
Attendance and Health	-0-	8
Total Average	<u>\$1,589</u>	<u>\$1,896</u>

Per-pupil costs for each of the areas reviewed by the auditors showed that the Wamego school district's costs per pupil were lower in all but one category. In that category, student body activities/community services/capital outlay, Wamego's costs were about 14.3 percent higher than in similar-sized school districts. This cost was primarily due to the capital outlay component of the category, which includes the purchase of equipment for the new school buildings which opened in 1981.

In summary, a review of the trends in the district's finances suggests that the district's financial picture appears healthy. Revenues have risen 85 percent over the last five years, while expenditures have only gone up 54 percent. This suggests that beginning balances (unspent funds) should have increased substantially in the past five years, which has in fact occurred because beginning balances have increased by 364 percent. In addition, local mill levies have risen, but by less than the increase in expenditures.

CHAPTER III

IMPROVING THE DISTRICT'S FINANCIAL MANAGEMENT

To determine if the district is effectively managing its financial resources, the auditors assessed such areas as the district's budgeting procedures, purchasing procedures, and cash management policies and procedures. They determined whether the district's financial management practices were in compliance with State laws and regulations, whether the practices were effective, and whether there was a need for improvement in any of these areas. Their review showed the following:

—General Fund cash balances are larger than necessary for operations.

The district always budgets the maximum allowed by law in the General Fund and spends an average of 92.7 percent of its budget. But because it takes in more revenues than it budgets to spend, it spends only 87.9 percent of its available funds. These revenues have resulted in increasing fund balances and higher balances than needed to maintain the fund. This has occurred in part because the district has budgeted, as part of the 18-month budget process, close to 150 percent of needs in recent years .

—Negative balances have been permitted in special revenue funds. The cash basis law and the School District Equalization Act state that moneys shall not be spent in excess of the actual amount available in the individual fund. However, the Wamego school district has permitted negative balances in several of its special revenue funds. To fully comply with statutory requirements, the district should make transfers as needed from the General Fund.

—Transfers to special revenue funds were generally necessary. The district transferred \$191,900 from the General Fund to the special revenue funds in fiscal year 1982. Of this total, only \$7,294 was not needed to keep the funds solvent. Because this represents just 3.7 percent of the total amount transferred, it appears that the district is not transferring money from the General Fund unnecessarily.

—Investment income could be increased. The district's interest earnings have risen 713 percent over the past five years, to over \$110,000. However, the auditors found that the district could have earned more interest if it had invested more of its idle cash and if it had converted its checking account to an interest-bearing checking account. If both of these steps were taken, interest earnings would have increased an additional \$22,000 in fiscal year 1982.

—**Purchasing procedures could be improved.** The district could improve its purchasing procedures by consolidating purchases for similar items into single purchase orders, standardizing frequently ordered items, and making additional use of local purchase orders. In addition, although a change in State law to allow school districts more flexibility in making purchases from special industries is being recommended, Wamego should buy all available products from Kansas Industries for the Blind as required by the current statute.

Each of these findings is discussed in greater detail in the following sections. Where appropriate, recommendations are made for improvements or for bringing district policies and procedures into compliance with State laws and regulations.

Budgeting Practices: General Fund

Budgets in school districts are built through a General Fund and a series of funds for special program such as vocational education, special education, and transportation. The Legislature limits the amount a district can budget for its General Fund. This limit allows districts to increase their General Fund budgets between five and 15 percent annually unless greater or lesser limits are mandated by the Legislature. These budget limitations also are expenditure limitations because a district cannot spend

Available Moneys By Fund Wamego School District

<u>Fund</u>	<u>FY 1982 Total Amount Available</u>	<u>Percent of District Total</u>
General Fund	\$2,588,553	66.4%
Special Revenue Funds(a)		
Capital Outlay	475,581	12.2
Transportation	69,861	1.8
Bilingual Education	5,449	.1
Driver Training	3,583	.1
Food Service	147,848	3.8
Special Education	669	--
Vocational Education	12,514	.3
Textbook Rental	27,703	.7
Bond and Interest #1	527,496	13.5
Bond and Interest #19	43,658	1.1
Total	<u>\$3,902,915</u>	<u>100.0%</u>

(a) Excludes transfers received from the General Fund.

more than the maximum allowable budget out of the General Fund without losing State aid.

Most of Wamego school district's revenues are paid into and spent out of the district's General Fund. As the chart shows, in fiscal year 1982, \$2.6 million (66.3%) of the more than \$3.9 million in available funds were in the General Fund. The rest of the moneys were in special revenue funds, as shown in the accompanying table.

In all, 94.6 percent of the State aid the district received was deposited in the General Fund. This State aid accounted for 54.7 percent of all moneys in the General Fund. Local and county taxes accounted for 26.2 percent of the amount available in the General Fund. Balances carried over from the previous year accounted for 17.3 percent of the Fund's total. Of the approximately \$2.8 million spent by the school district in fiscal year 1982, just over \$2 million (74 percent) was spent out of the General Fund. This amount includes expenditures for administration, instruction, operation, and maintenance of schools and other facilities. An additional \$191,900 was transferred into the transportation, driver training, special education, and vocational education special funds.

The District Generally Budgets the Maximum Allowed Each Year

The district has budgeted the maximum amount allowed under the law for four of the past five years. The exception was fiscal year 1978. In that year, the district purposely underbudgeted by \$49,895. The unused budget authority was carried over into fiscal year 1979. However, it could not be used because the district's budget per pupil had already increased by the maximum amount allowed of 15 percent. In the remaining years, the district budgeted the maximum and had no outstanding unused budget authority.

The district's maximum General Fund budget has risen from \$1,355,291 in fiscal year 1978 to \$2,346,120 in fiscal year 1982, an increase of 73.1 percent, or an average of 14.6 percent a year. Over the five-year period, the district spent an average of 87.9 percent of its General Fund budget. If transfers to special funds are not included, this figure is 78.0 percent.

On the average, the district spent 87.9 percent of its available General Fund moneys over the five-year period. However, this proportion declined substantially between fiscal years 1980, when 93 percent of the available funds were spent, and 1981, when just over 80 percent of available funds were spent. As a result, balances carried over to succeeding years increased substantially, from \$111,589 in fiscal year 1978 to \$441,097 in fiscal year 1982. In percentage terms, beginning balances rose from 7.6 percent of available funds in 1978 to 17 percent in 1982.

**General Fund Maximum and Adopted Budgets
Revenues and Expenditures
Wamego School District
Fiscal Years 1978-1982**

<u>Fiscal Year</u>	<u>Maximum Budget Allowed</u>	<u>Adopted Budget</u>	<u>Total Available Funds</u>	<u>Amount(b) Spent</u>
1978	\$1,355,291	\$1,281,346(a)	\$1,430,616	\$1,321,329
1979	1,646,292	1,646,292	1,758,767	1,641,999
1980	1,958,440	1,958,440	2,094,523	1,949,064
1981	2,217,733	2,217,733	2,211,840	1,773,335
1982	2,346,120	2,346,120	2,535,475	2,041,448
% Increase 1978-1982	73.1%	83.1%	77.2%	54.5%

- (a) The district carried over \$49,895 of budget authority because they purposely underbudgeted by that amount. The actual unused authority was higher because enrollment was underestimated.
- (b) Includes transfers to special revenue funds.
- (c) The 1978 figures include amounts budgeted and spent for social security, workmen's compensation, and unemployment insurance. Prior to 1979, these were separate funds from the General Fund. From 1979 on, these were included in the General Fund budgets and expenditures. The changes were made to keep those figures comparable to later years.

**General Fund Cash Balances Are Larger Than Necessary
For Operations**

Unspent funds carried over from the previous year increased 364 percent in five years, from \$205,474 at the start of fiscal year 1978 to \$954,318 at the beginning of fiscal year 1982. These funds represented 24.4 percent of the total available in fiscal year 1982. The increase in the district's balances is larger than the increase in all sources of funds (85.0 percent) and the increase in total expenditures (52.3 percent) in the same time period.

Balances as a percent of expenditures rose from 11.2 percent to 33.8 percent between fiscal years 1978 and 1982. Because the size of the increases in balances compared to total revenues and expenditures and increases in balances as a percent of expenditures, the auditors examined monthly balances to determine if they were excessive. The analysis was restricted to an examination of the General Fund because it exhibited the largest absolute increase in beginning balances (293 percent) and because the district's accounting procedures permitted monthly balances of a

number of funds to be negative. Transfers were made to the special revenue funds at the end of the fiscal year rather than on an as-needed basis. Since negative balances were shown throughout the year, examining monthly balances for these funds was not possible. The district's practice of allowing negative balances was a violation of several State laws, which require that each fund remain solvent independently. This finding is discussed later in this chapter in the section on Special Revenue Funds.

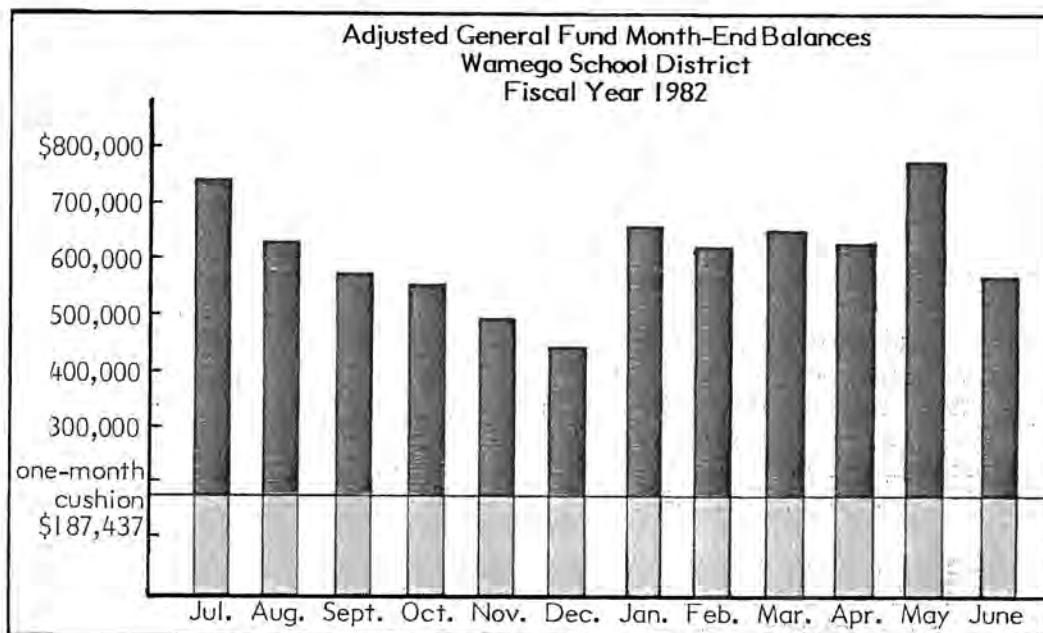
The auditors made several adjustments and assumptions:

- School districts must have large fund balances at the beginning of the fiscal year because revenues from State and local sources come in slowly during the first months of the fiscal year. School districts are required by statute to budget for between 40 and 50 percent more revenues than they need during the fiscal year in the General Fund so that they will have an adequate balance for the first part of the next fiscal year. (This is often called the 18-month budget process.)
- Despite the requirement for large beginning balances, there is no requirement that the lowest fund balance during the fiscal year be more than a minimum "cushion" against unforeseen expenditures. The auditors used one month of annual expenditures from the funds examined as the balance needed for a reasonable "cushion".
- Capital Outlay and Bond and Interest Funds were removed from the analysis because balances in those funds are purposely built up to meet future construction and bond retirement needs. The Textbook Rental Fund was also omitted because its balance is supposed to approach zero. Thus, the one-month criterion for balances cannot fairly be applied to these funds.
- General Fund balances were adjusted to simulate what they would have been if the district had complied with State law that each fund remain solvent independently, that is, if transfers to the special revenue funds were made on an as-needed basis (when the balance on paper was negative, rather than at the end of the year). For example, the balance in the Transportation Fund in August was (\$3,242), based on the receipts and expenditures of the Fund. Thus, for the Fund to remain solvent, the General Fund needed to transfer \$3,242 to the Transportation Fund in August. Similar adjustments to the General Fund were made each month as needed transfers were made to the Transportation, Driver Training, Food Service, Special Education, and Vocational Education Funds.

The Fund's Lowest Monthly Balance Was \$130,000 More Than Needed

The accompanying figure shows the General Fund month-end balances (after the adjustments) compared to the balance required for a one-month

"cushion." The adjusted General Fund balance in the lowest month (December) was \$439,408, which was \$251,971 more than the one-month "cushion" of \$187,437. A final concern about the completeness of this analysis was that these balances are month-end balances and do not reflect the lowest balance during the month. Daily fund balances were not available. Therefore, the auditors removed all revenues received in the General Fund during December and found that the lowest the balance could have been during the month was \$317,662. This is still \$130,225 above the one-month "cushion." At that lowest point, the amount above the one-month "cushion" is nearly 6.4 percent of fiscal year 1982 General Fund expenditures. In other words, the lowest General Fund balance in fiscal year 1982, after adjusting to ensure all funds were solvent, was approximately \$130,000 above a one-month "cushion" for unforeseen expenditures.



Legislative Post Audit recognizes it would be difficult for the district to plan so carefully that its lowest balance would equal the one-month cushion. The General Fund ending balance is in part dependent on the district's decision at the beginning of that year to budget between 40 or 50 percent more revenues than needed to comply with the legal requirements for 18-month budgeting. This procedure ensures sufficient funds are available in ending balances to keep the district solvent in the first part of the fiscal year, when revenues come in slower than in the latter part of the year. Thus, if a district's ending balances are too high at the lowest point in the year, future balances can be reduced by budgeting closer to 40 percent. The Wamego school district has budgeted an average of 47 percent over the past five years.

Related to this analysis is the fact that the district has not been spending its General Fund budgeted moneys during the past two fiscal years. In fiscal year 1981, the district spent 80 percent of its General Fund budget. This coincides with large ending balances in the General Fund beginning in those years. After being roughly \$100,000 to \$150,000 in fiscal years 1978, 1979, and 1980, ending balances climbed to \$438,777 in fiscal year 1981 and increased to \$494,027 at the end of fiscal year 1982. As a percent of annual expenditures, ending balances grew from less than 10 percent in fiscal years 1978-1980 to nearly 25 percent in both 1981 and 1982. At the same time, the district is budgeting the maximum allowed it under law, which occurs because maximum budgets are based on previous years' budgets rather than expenditures. Although it may be prudent for the district to accumulate large reserves against future reductions in State or federal aid, the result of the practice is a subsidization by the State of the Wamego school district's savings program.

Reductions in State Aid Could Lower Balances

Fund balances that were not needed in the past could help the district face the impending reductions in State aid. Although balances in the General Fund were \$130,225 above a minimum cushion in fiscal year 1982, that extra money could help the district through the four percent reduction in State aid made necessary because of the State's fiscal crisis. The Department of Education estimates that the reduction in State aid for the Wamego school district in fiscal year 1983 will total about \$37,313. In addition, its special education cooperative is expected to receive a cut of \$10,059. Assuming that the district's excess balance this year is \$130,225, as it was last year, the district--if it chooses to do so--would be able to absorb the one-time four percent cut without any reduction in services. The only effect of the cut in State aid, then, would be to reduce the size of the district's excess balance.

It is up to local taxpayers to decide, through the election of school board members, whether it is reasonable to be taxed for more money than is needed now so that extra money will be available to meet a revenue crisis later. Perhaps the electorate would prefer to increase taxes or cut programs at the time revenues are reduced, rather than allow the district to save money for lean times. As it stands now, the district appears to have a healthy cash position that should enable it to absorb aid reductions in the coming year without any major cutbacks in services.

Budgeting Practices: Special Revenue Funds

The district maintains 10 special revenue funds: Special Education, Food Service, Transportation, Capital Outlay, Vocational Education, Bond and Interest (two accounts), Driver Training, Textbook Rental, and Bilin-

gual Education. In addition, it administers the Cooperative Special Education fund. Also, in fiscal years 1978 and 1979, the district maintained an Adult Supplementary Education Fund. Nearly \$1.0 million was spent from these funds in fiscal year 1982. Of that total, 92 percent was spent from five funds: Food Service, Transportation, Capital Outlay, Vocational Education, and Bond and Interest accounts.

Special revenue funds receive support from a variety of sources. State and federal programs support various funds, as do such charges to users as lunch fees and fees for vocational education classes. Most of these funds cannot receive moneys directly from local tax levies. Local funds can be obtained indirectly, however, in one of two ways—depositing interest earnings, which by law cannot go into the General Fund, and transferring moneys from the General Fund. In fiscal year 1982, \$110,681 in interest was deposited in these funds, and \$191,900 was transferred from the General Fund. About \$46,824 of these transfers were local funds and \$107,215 was State aid to the General Fund.

During fiscal year 1982, the special revenue funds had a total of \$1,506,260 in available funds (this includes the amount received through transfers from the General Fund). For the year, \$925,967 was spent from these funds, or 61.5 of the total available. Remaining balances were carried over the next year. Six of the district's special revenue funds received transfers from the General Fund between fiscal years 1978 and 1982. These include the Transportation Fund, the Special Education Fund, the Vocational Education Fund, the Driver Training Fund, the Food Service Fund, and the Capital Outlay Fund.

The auditors examined transfers to special funds to determine if they were excessive. They also examined each fund to determine if there were any problems in the management of those funds. They found that the district has permitted negative balances in several of its special revenue funds, in violation of the State's cash basis law and the School District Equalization Act. They also found that transfers from the General Fund were generally not excessive, although transfers do increase State aid to special funds. These findings are discussed in more detail below.

Negative Balances Have Been Permitted in Special Revenue Funds

The cash basis law and the School District Equalization Act do not allow moneys to be spent out of special revenue funds in excess of the actual amount available in the individual fund. However, the Wamego school district has permitted negative balances in several of its special revenue funds, in violation of both laws.

The Wamego school district maintains all of its special revenue funds, as well as the Cooperative Special Education Fund, in one checking account. Accountability for each individual fund is maintained through the

use of ledgers, by recording receipts and expenditures and monitoring them against each fund's budget. Each special revenue fund receives revenues from one or more sources, including transfers from the General Fund. In Wamego, transfers of General Fund revenues to the special revenue funds were made at the end of fiscal year 1982. However, expenditures occurred throughout the year, and not all funds received adequate amounts of revenue from other sources regularly enough to maintain solvency. For example, on June 22, 1982, district accounting records show five special revenue funds had negative balances totaling \$201,776.

Over the course of the year, the district did not overspend the amount available for each special revenue fund, and restored each fund to a positive balance at year-end. However, the cash basis law and the School District Equalization Act require that moneys not be spent in excess of the actual amount available in the individual funds. Because all of the district's cash resources are maintained in one checking account, expenditures of that fund are actually being paid from other funds' revenues--when a deficit exists in one or more of the special revenue funds--a technical violation of the law.

Recommendation

To fully comply with the cash basis law and School District Equalization Act, the Wamego school district should monitor the balance of each special revenue fund more closely, and make transfers to those funds as needed from the General Fund.

Transfers Were Generally Needed to Keep the Funds Solvent

The auditors reviewed each of these funds' revenues, expenditures, and transfers for fiscal years 1978 to 1982 to determine if all transfers were necessary to support the operation of these funds. In doing this, they looked both at the overall result of the transfers for the five-year period and at transfers on a year-to-year basis. Although in some cases transfers were slightly more than necessary for the fund to remain solvent, it does not appear that the district was transferring money for the purpose of building up balances. The one exception to this is the transfers made to the Capital Outlay Fund in fiscal years 1978 and 1979. In neither of these years was the transfer needed to keep the fund solvent. However, according to district officials, these transfers were made to increase the funds available for capital outlay in preparation for the construction program completed in fiscal years 1980 and 1981. For the remaining funds, excess transfers, which increase balances, were low and could be seen as providing a cushion against unforeseen or emergency expenditures.

Transfers Increase General Fund Budgets and State Aid to Special Funds

When transfers are made from the General Fund, whether they are necessary to support special programs or not, they increase the amount of local property taxes and State equalization aid needed to finance the next year's General Fund expenditures. They also increase the amount of money available to the district to spend out of its special revenue funds. Unlike the General Fund, there are no expenditure limits on these funds.

Because General Fund moneys include State equalization aid paid to the district, transfers to special revenue funds also contain a portion of that State aid. As a result, the State ends up contributing a portion of its equalization aid to support special programs that already receive State categorical aid. The State paid an additional \$499,806 over a five-year period from 1978 through 1982 to support Wamego's special program funds. In fiscal year 1982, \$107,215, or 56 percent of the \$191,900 transferred to special funds, was State aid.

State Equalization Aid Paid to Special Revenue Funds Because of Transfers from the General Fund Fiscal Year 1982

<u>Special Revenue Fund</u>	<u>Amount Transferred</u>	<u>State Aid Included in Transfer</u>	
		<u>Percent</u>	<u>Amount</u>
Transportation	\$ 82,600	55.87%	\$ 46,149
Special Education	28,300	55.87	15,811
Vocational Education	66,000	55.87	36,874
Driver Training	15,000	55.87	8,381
Total	<u>\$191,900</u>		<u>\$107,215</u>

Although transfers do significantly increase State support of these programs, it should be noted that they partially support the education of students in special education and vocational education programs that would otherwise be supported by the General Fund. In other words, if these students were regular students, money would have been spent directly out of the General Fund to educate them. For special education and vocational education programs, State categorical aid is intended to cover only the cost in excess of educating regular students.

Increasing Investment Earnings

One way a school district can generate additional revenues is to invest funds that are not immediately needed to operate the district. By wisely investing such funds, the district can directly reduce the amount of local property tax support necessary to fund the district. The amount of

interest earned from moneys invested by the Wamego school district rose from \$13,617 in fiscal year 1982 (0.6 percent of total available funds) to \$110,681 in fiscal year 1982 (2.6 percent of total available funds). This represents an increase of 713 percent. These figures include investments of the Cooperative Special Education Fund, since it is pooled with Wamego's funds for investment purposes. The large increase was the result of higher interest rates, larger balances available for investment, and improved cash management. All interest earnings are deposited into the Capital Outlay Special Revenue Fund.

Kansas law allows school districts to invest idle funds and places certain requirements on those investments to ensure that the funds are adequately protected and that the district receives reasonable rates of return. Districts are allowed to invest funds in temporary notes issued by the district, time deposit open accounts or certificates of deposit, shares or savings deposits in savings and loan institutions, repurchase agreements, and, if time deposit open accounts (certificates of deposit) are not available, in U.S. Treasury Bills or Notes. Certificates of deposit from commercial banks are probably the most frequently used investments. Preference must be given to banks or savings and loans with home offices located within the school district. If the rate of interest on these accounts is not at least equal to the average yield before taxes on 91-day Treasury Bills, school districts may take their investment moneys elsewhere.

The Wamego school district, which does not separate any checking or other accounts by fund, alternates its checking account annually between the two local banks. Investments are made at both banks as well, depending on the interest rate that is offered to the district for its purchases of certificates of deposit. During fiscal year 1982, the Wamego school district invested an average of about \$840,000 in certificates of deposit. The district also maintained accounts in two local savings and loan associations during fiscal year 1982, both with balances of about \$20,000.

In examining the cash management and investment activities of the Wamego school district during fiscal year 1982, the auditors reviewed investments to ensure that they were made in compliance with the law and that they were earning the maximum amount of interest possible. In addition, the auditors reviewed the invested cash balance to determine if it was excessive.

This review indicated that all investments made by the district were in compliance with the statutes, and that the district deposited all large receipts, such as State and federal aid and local property tax money, as soon as they were received. The auditors did find, however, that the district could have earned more than \$22,000 in additional interest revenues by pursuing higher yielding investments for some of the district's money currently held in checking accounts and by obtaining interest on its checking account, which is currently non-interest bearing.

The District Could Increase Earnings by Investing More of its Idle Checking Account Funds

In reviewing the district's checking account, the auditors found that it often contains significant sums of money that could be placed in certificates of deposit and earn additional interest revenues for the district. The auditors reviewed month-end checking account balances and found that they averaged \$348,107 and were as high as \$801,682. Balances were particularly high in the first seven months of the fiscal year (July 1981 through January 1982).

Limiting funds in the checking account. The district could limit the amounts kept in its checking account and invest funds above that set limit. For example, the district could limit the checking account balance to an amount equaling average monthly expenditures (\$266,000), plus an additional \$50,000 to ensure that the money is available for unanticipated needs. Amounts above the \$316,000 could be invested in certificates of deposit that earn the U.S. Treasury Bill rate. The auditors estimated that if the district had earned the U.S. Treasury Bill rate on checking account funds that exceeded \$316,000 during fiscal year 1982, it could have received about \$11,600 more in interest income.

Staggering certificate maturity dates assures liquidity. Due to fluctuations in receipts and expenditures, there is some difficulty for the school district in determining how much can be invested in time deposits and still meet obligations as they come due. However, in Wamego this is less of a problem than it might appear at first glance. The district maintains a number of certificates of deposit that were renewed throughout fiscal year 1982. There was at least one certificate maturing in each month during the year and in some months several certificates came due. If the funds in the district checking account are running low in a given month, instead of renewing a maturing certificate, the district could deposit those funds in the checking account until the balance was sufficient to allow the funds to be reinvested. As a result, the district could maintain a reasonable balance between funds invested in certificates and funds held in checking accounts.

Recommendation

To increase investment earnings, the Wamego school district should set a limit on its checking account balance and invest amounts above that limit in higher-yielding investment instruments, such as certificates of deposit.

The District Does Not Receive Interest on its Checking Account

School districts have been eligible to receive interest on checking accounts since January 1981. However, the Wamego school district has not converted to such interest-bearing accounts in either of the two local banks with which the district alternates its checking account. Had the district received interest during fiscal year 1982, it could have earned \$17,000 in additional interest.

District officials told the auditors that this option was pursued at the end of fiscal year 1982, but that both banks indicated they would no longer offer the U.S. Treasury Bill rate on certificates of deposit if the district converted its checking account to an interest-bearing account. The banks said they would instead pay the money market rate, which is usually about two percentage points less than the U.S. Treasury Bill rate.

The district, which received the U.S. Treasury Bill rate on all but four of its 42 certificates of deposit purchased during fiscal year 1982, said it would lose interest income overall if it would convert its checking account to an interest-bearing account under the banks' conditions. The auditors determined that the district might have earned as little as \$1,500 in 1982 by converting its checking to an interest-bearing account and accepting two percent less interest on its certificates of deposit. However, it should be noted that State law allows the district to earn both the U.S. Treasury Bill rate on its certificates of deposit and interest on its checking account. In fact, the law allows school districts to take their investment moneys to banks or savings and loans outside the district if the interest rate on certificates of deposit is not at least equal to the average yield on 91-day Treasury Bills. State law also allows school districts to place its investments that earn the U.S. Treasury Bill rate in local savings and loans, even if those institutions maintain other investments for the district.

Therefore, if the two local banks continue to place the condition on the district that it cannot receive interest on its checking account unless it agrees to accept the lower money market rates on its certificates of deposit, the district could invest its moneys in the savings and loans located in the district or in savings institutions located outside of the district.

Recommendation

The Wamego school district should convert its checking account to an interest-bearing account. In converting this account, the district should also ensure that it earns the U.S. Treasury Bill rate of interest on its certificates of deposit, by taking its investments to other institutions--such as the local savings and loan or institutions outside of the district--if necessary.

Purchasing Practices

To determine if the Wamego school district's purchasing program is in compliance with State law and is operating as efficiently as possible, the auditors did the following testwork. First, they examined the district's compliance with State purchasing laws and found several instances in which State law was not followed. Second, the auditors reviewed purchasing procedures and determined that consolidation of small purchase orders would improve the efficiency of district purchasing efforts. Third, the auditors compared the price the district paid for selected items to the price paid by the State for that item and found that the district could have saved money if it had been able to purchase on State contracts. These findings are discussed in more detail below.

The District Does Not Fully Comply With State Purchasing Laws

State law (K.S.A. 1982 Supp. 75-3321 and K.S.A. 1982 Supp. 72-6760) requires school districts to do the following:

- Obtain competitive bids on all contracts for construction or the purchases of goods or materials which exceed \$5,000.
- Purchase items from Kansas Industries for the Blind or the Rehabilitation Services of the Department of Social and Rehabilitation Services when such products are available.

The auditors found that the district violated the law in both areas.

Obtaining multiple bids. The auditors reviewed the district's purchasing procedures to ensure that it received two or more bids before making purchases exceeding \$5,000. They found that four of the seven purchases of over \$5,000, which the district made during fiscal year 1982 and the first part of fiscal year 1983, were made after the receipt of competitive bids. On two of the remaining transactions, which involved construction services and the purchase of school buses, the district received only one bid in each case, but it fulfilled its obligation because it contacted more than one vendor to solicit bids. However, no bids were received for one purchase of janitorial supplies totaling \$11,285, in apparent violation of the law.

Purchasing items from special industries. State law also requires that school districts purchase available items from the Kansas Industries for the Blind or Rehabilitation Services. The auditors' review of a sample of the district's purchases found that, although the district makes some purchases from Kansas Industries for the Blind, a significant amount of items offered by that agency are purchased from other vendors, in violation of the law. From June through September 1982 (which includes the district's peak purchasing period), the district purchased a number of items including felt

tip markers, ball point pocket pens, counter brushes, and pushbrooms totaling \$690. These items were available from the Kansas Industries for the Blind but were purchased from other vendors in violation of State law. The district could have saved \$250 by purchasing these items from Kansas Industries for the Blind. Only counter brushes would have cost more if purchased from the Kansas Industries for the Blind, and that difference was minimal.

In several other school districts that have been audited recently, Legislative Post Audit found that certain items purchased from Kansas Industries for the Blind and Rehabilitation Services are more expensive than similar items purchased from other vendors. Thus, in some instances complying with the law increased school districts' costs. For that reason, this audit and the other school district audits are recommending that the statute be changed to allow school districts more flexibility. However, it should be noted that in Wamego, only one of the purchases reviewed would have been more costly if made from Kansas Industries for the Blind, as the law requires.

Recommendations

1. The Wamego school district should adhere to State law by obtaining bids for all goods and materials that cost more than \$5,000.
2. The Legislature should consider amending State law to allow school districts to purchase items from regular vendors instead of special industries when doing so can decrease their cost. Prior to any change in State law, the Wamego school district should purchase all items from Kansas Industries for the Blind or from Rehabilitation Services when such items are available.

The District's Purchasing Procedures Could Be More Efficient

The auditors found that the district does not always plan its purchases to avoid several small purchases from various suppliers when one large purchase would be possible. The auditors also found that the district needs to develop guidelines for purchasing small (under \$25) items.

Combining small purchases. The advantage of combining purchases is two-fold. First, quantity purchases generally result in less expensive costs per item. Second, purchase orders are expensive to process and combining purchases can reduce the number of purchase orders. In reviewing a sample of purchase orders, the auditors found that better planning would have often allowed consolidation of two or more purchase orders. The following are some examples:

- Three purchase orders for paper towels issued within two months, totaling \$85.
- Four purchase orders for #2 lead pencils issued within two months, to two suppliers totaling \$43.
- Three purchase orders for needlepoint felt-tip markers issued within two months, each to a different vendor, totaling \$223.
- Five purchase orders for ball point pocket pens issued within two months to three vendors, totaling \$430.
- Seventeen purchase orders for art supplies issued to three vendors during the first quarter of fiscal year 1983, 14 of which were dated July 1, totaling \$2,447.

The auditors' review of these purchases indicated that they could have been consolidated in several ways: by more careful planning, by coordinating purchases, both within each school and district-wide, and by standardizing certain items, such as pens, pencils, and markers, so that they could be purchased in larger quantities from a single vendor.

Using local purchase orders. Another way to increase the efficiency of a purchasing program is to allow small purchases to be made outside the normal purchasing procedures. In Wamego, when small or emergency purchases are needed, the district sometimes uses a local purchase order form. Local vendors then bill the district for all such purchases at the end of the month. However, local purchase orders are not routinely used for all small purchases. By developing guidelines for the use of local purchase orders for additional small purchases (such as all local purchases under \$25) the district could further decrease the number of small purchase orders.

Recommendations

To ensure greater efficiency in purchasing procedures, the Wamego school district should:

1. Coordinate purchases of supplies with its schools and departments, combining purchase orders as much as possible.
2. Establish guidelines for using local purchase orders for all local purchases below a specified amount.

The District Could Save Money if Allowed to Purchase on State Contracts

Kansas is one of only 10 states that does not allow school districts to purchase from State contracts. Since 1971 there have been six bills introduced to the Kansas Legislature that would have allowed school districts or local governments to purchase from State contracts. None of these bills passed. To determine if the Wamego school district would benefit from being able to purchase from State contracts, the auditors compared prices paid by the district and those available through State contracts for six items. The six items were chosen from items purchased frequently on State contracts by school districts in Missouri, Oklahoma, and Colorado.

Of the six items compared, the district would have saved money purchasing from State contracts on four of them. These items were legal pads, brown envelopes, toilet paper, and photo lamps. If the district had purchased these items from State contracts from June through September 1982, the district would have saved \$424. Although this amount may seem small, there is a potential for significant savings on a Statewide basis.

Given the potential savings that could be realized Statewide, Legislative Post Audit will be reviewing the question of whether school districts should be allowed to purchase from State contracts as part of its summary report of this year's school district audits. That review will include an assessment of the cost to the State of administering the system as well as the potential benefits.

CHAPTER IV

MANAGING DISTRICT PERSONNEL AND EDUCATIONAL RESOURCES

To determine if the Wamego school district effectively manages its personnel to provide services to its students at a reasonable cost, the auditors reviewed the district's enrollment, personnel, and course offerings. In general, they found that the district's per-pupil costs for administrators were lower than average, apparently due to the fact that the district employs fewer administrators per teacher and fewer administrators per pupil than other districts. They also found that while the district's graduation requirements, overall, exceeded the State's, the requirements in one specific course area, as documented in its high school's handbook, did not appear to meet the State's minimum. Each of these areas is discussed in greater detail in the sections that follow.

School District Enrollments Are Stabilizing After Declines

During the 1981-1982 school year, a total of 986.7 full-time equivalent students attended the four schools in the Wamego district. An additional 21.0 students were full-time students of the Kansas River Valley Special Education Cooperative. The accompanying table shows the number of full-time equivalent students in each grade level at each of the four schools. As the table shows, 550.5 full-time equivalent students were in kindergarten through the sixth grade and attended the district's two elementary schools. Another 178 students attended the middle school, and the remainder, 258.2 students, attended the high school.

Enrollment in Kansas school districts has been declining for a number of years, reflecting national and State trends of the declining percentage of school-age populations. From 1970 to 1978, the total public school enrollment for the nation decreased by 7.2 percent. In Kansas, however, the decline was twice as large, at 15.4 percent.

The Wamego school district's enrollment dropped 6.9 percent from 1,059.6 full-time equivalent students in fiscal year 1978 to 986.7 in fiscal year 1982. Most of this decrease occurred in the high school, where enrollment dropped from 370.1 students in 1978 to 258.2 students in 1982, a decrease of 30.2 percent. By contrast, enrollment in kindergarten through grade six increased from 536.5 to 550.5 students or an increase of 2.6 percent. In addition, enrollment in the middle school grades increased from 153 to 178 students, or 16.3 percent. Coinciding with this trend, the district's total enrollment for 1983 increased 2.5 percent to 1,011.5,

Enrollment Information by Grade Wamego School District Fiscal Year 1982	
GRADE LEVEL	Full-Time Enrollments No. of Students
<u>Primary School</u>	
K	48.5
1	83.0
2	90.0
3	88.0
4	93.0
5	81.0
6	67.0
Total Primary School	<u>550.5</u>
<u>Middle School</u>	
7	106
8	72
Total Middle School	<u>178</u>
<u>High School</u>	
9	60.0
10	61.0
11	67.0
12	70.2
Total High School	<u>258.2</u>
Total Special Education(a)	<u>21.0</u>
Total District Enrollment	<u>1,007.7</u>
(a) These students attend the Kansas River Valley Special Education Cooperative on a full-time basis. Additional students from the district attend the Cooperative on a part-time basis but are also enrolled in regular courses.	

excluding special education students. According to the district's Superintendent, enrollment is projected to increase over the next five years, especially in the lower grades. This occurrence is expected because of the influx of young families into the district. An increasing number of residents have moved to Wamego and commute to work in the area between Manhattan and Topeka.

Overall Staff Level Has Increased

In fiscal year 1982, the district employed 124.2 full-time equivalent personnel, an increase of 9.1 employees, or 7.9 percent, since fiscal year 1978. This includes the portion of special education cooperative personnel allocated to Wamego students.

The 124.2 full-time equivalent positions reported by the district in fiscal year 1982 included 79.8 regular and special education teachers and aides, 5.7 administrators, 4.2 non-teaching certified personnel such as librarians and guidance counselors, and 34.5 support personnel.

Slight Increases Occurred in Administrators and in Teaching Staff

In fiscal year 1982 there were 124.2 full-time equivalent positions in the district. This is a 7.9 percent increase in staff personnel compared to 115.1 full-time equivalent positions in fiscal year 1978. The nine additional positions included 1.2 administrators, 6.5 teachers, and 1.5 support personnel. In the same period, total enrollment in the district dropped 7.4 percent. The number of administrators in the district increased when West Elementary was opened in fiscal year 1981 and when the Elementary Middle School was opened in fiscal year 1982. Special education, English, and foreign language teachers accounted for the increase in teaching staffs.

Staffing Information
Wamego School District
Fiscal Years 1978 and 1982

Summary of Changes in Staffing	Number (FTE) FY 1978	Number (FTE) FY 1982	Percent Change
Position			
Administrators			
Superintendents	1.0	1.0	--
Principals	3.0	3.6	20.0%
Asst. Principals	--	0.6	60.0
Special Ed. Director	0.5	0.5	--
Total	4.5	5.7	26.7%
Teaching Staff			
Classroom Teachers	62.9	64.8	3.0
Special Ed. Teachers	4.5	7.0	55.6
Teacher Aides	3.9	5.5	41.0
Special Educ. Aides	2.0	2.5	25.0
Total	73.3	79.8	8.9%
Certified Non-Teaching Personnel	4.3	4.2	(2.3%)
Support Personnel	33.0	34.5	4.5
Total Employees	115.1	124.2	7.9%

The District Has More Teachers Per Administrator and More Pupils Per Administrator Than Other Districts With Similar Enrollments

The auditors reviewed the pupil-teacher and teacher-administrator ratios for the districts. The accompanying table shows the full-time special education staffing ratios of the district (excluding special education personnel and pupils). The district's pupil-teacher ratio in fiscal year 1982 was 15.2 students per teacher. This ratio was two percent higher than the average of 20 districts with similar enrollments but eight percent lower than the Statewide average. The district's moderate number of pupils per teacher along with lower salaries is responsible for lower per-pupil costs for teachers. In fiscal year 1981, Wamego's per-pupil cost for teachers was 8.3 percent lower than the average for all medium-sized districts.

In fiscal year 1982, the district had 15.4 teachers per administrator, which was 18.8 percent higher than the average of 20 districts with similar enrollments and 28.6 percent higher than the Statewide average. In addition, the district's pupil-administrator ratio was 20.5 percent higher than districts with similar enrollments and 24.6 percent higher than the Statewide average. This means that in comparison to other districts of similar enrollments, Wamego has more students and more classroom teachers per administrator. This at least partially accounts for the relatively low per-pupil costs for administration in fiscal year 1982 of \$54, which was 47 percent less than the average of \$101 for other districts of comparable size.

**Staffing Ratios
Wamego School District
Fiscal Year 1982**

<u>Position</u>	<u>Wamego(a)</u>	<u>Average in Similar-sized Districts</u>	<u>Statewide Average</u>
Pupil: Teacher	15.2:1	14.9:1	16.1:1
Teacher:Administrator	15.4:1	12.5:1	11.0:1
Pupil:Administrator	234.9:1	186.7:1	177.1:1

(a) Excludes full-time special education pupils, all special education teachers, and the director.

Salaries and Employee Benefits

The auditors examined the district's salaries and employee benefits to determine if they are reasonable in comparison to other school districts in the State. This review found that the district's Superintendent's and the average principal's salary are higher than other medium-sized districts, but the district's average classroom teacher's salary is lower than the average for medium-sized districts. The benefits provided to district employees did not appear to be excessive.

Teachers' Salaries Are Lower Than In Other Medium-Sized Districts

The accompanying table summarizes the personnel employed by the district, their average salaries, and the average salaries paid to those employees in similar-sized districts and Statewide. The table shows that salaries for classroom teachers in fiscal year 1982 averaged \$15,491. This was 3.4 percent lower than the average salaries paid in districts of comparable size and 7.9 percent lower than the Statewide average of \$16,712. The average principal's salary in the district was 5.5 percent above the average for similar-sized districts and slightly lower than the Statewide average. The Superintendent's salary was seven percent above the average in similar-sized districts and slightly below the Statewide average.

**Salary Information
Wamego School District
Fiscal Year 1982**

<u>Position</u>	<u>Wamego</u>	<u>Average in Similar-sized Districts</u>	<u>Statewide Average</u>
Superintendent	\$36,100	\$33,519	\$36,887
Principals	26,778	25,303	26,884
Classroom Teachers	15,491	16,018	16,712

Employee Benefits Do Not Seem Excessive

All employees in the district who work more than 1,000 hours a year are covered under the Kansas Public Employees Retirement System. In fiscal year 1982, the district employees paid four percent of their total income into the Retirement System; the State's share was 4.1 percent, or a total of \$68,578. The district's employees are also covered by social security, workmen's compensation, and unemployment insurance. In fiscal year 1982, these benefits cost the district a total of \$127,576. The district also paid \$40,112 in fiscal year 1982 for its administrators and certified personnel for hospitalization insurance and other benefits such as life insurance, disability protection, and tax shelter annuities. In fiscal year 1982, these employees received \$40 per month to be applied to those benefits, and in fiscal year 1983 the amount was raised to \$50 per month. In addition, teachers are reimbursed 19 cents a mile for travel in the district, while the Superintendent receives a leased car to be used for district-related travel.

Course Offerings and Teaching Loads

As a further way to evaluate the district's use of teaching personnel, the auditors examined high school courses in the district. Their review focused on course offerings, teaching schedules, and class enrollments. They found that, overall, course offerings exceeded the State's requirements. However, the graduation requirements in the area of social studies, as stated in the district's handbook were lower than the State's requirements.

Course Offerings Overall Exceed the State's Minimum, But Social Studies Requirements Appear to Fall Short

High schools in Kansas must meet minimum State accreditation requirements by offering at least 30 units of credit during the school year. A unit of credit requires that a class be taught 40 minutes five times a week for the full school year, or 120 clock hours. Wamego High School offered 62 credit units during the 1981-1982 school year. This qualified the district's high school to be designated as an "accredited comprehensive" high school, meaning that more than 50 units of credit are offered.

Wamego High School requires 20 credit units for graduation, the same as in the other medium-sized school districts audited during 1981 (Spring Hill, Columbus, Russell County) and in 1982 (Phillipsburg). The total of 62 credit units offered in Wamego places it third among the eight high schools in medium-sized districts reviewed to date. The highest number of credit units offered was 74 at Russell High School, and the lowest was 33.5 at Dorrance High School (in the Russell County school district).

The auditors reviewed district policies and course offerings and found that the high school's minimum requirements for graduation exceeded the

Minimum Graduation Requirements Wamego School District Fiscal Year 1982		
Area	State	District(a)
English	4	4
Social Studies	2	1.5
Science	1	1
Math	1	1
Physical Ed.	1	1
Electives	8	11.5
Total Units	17	20
(a) Requirements as listed in the Wamego High School Student Handbook.		

State's minimums in total. (Appendix B compares the district's graduation requirements with the State's, and it shows the number of credit units offered in each subject area at the high school. While the 20 units of credit that Wamego High School requires for graduation exceeds the State's requirement of 17 credit units, the auditors found that the district's student handbook states that a half a unit less is required in social studies than the State requires of an accredited high school. K.A.R. 1982 Supp. 91-28-7 requires two units in social studies,

while the Wamego school district's handbook states that only 1.5 units are required. The accompanying table compares the district's requirements with the State's graduation requirements in each course area.

The high school did offer more than 2.0 credit units of social studies courses, and according to the principal, all students take at least 2.0 credits of social studies. The auditors attempted to verify whether students who graduated from Wamego High School in 1982 had, in fact, taken two credit units of social studies courses as required by the State. However, they were denied access to student records by district officials. Legislative Post Audit is pursuing its access to those records, as directed by the Legislative Post Audit Act. Nonetheless, the school district's requirements should be documented in the student handbook as meeting the State's requirements in each course area.

Recommendation

To comply with K.A.R. 1982 Supp. 91-28-7, the Wamego school district should ensure that its high school requires at least the minimum credit units in each course area designated by the State for graduation from a high school. Those requirements should also be correctly documented in the Wamego High School Student Handbook.

Class Sizes Are Small in Wamego

During the 1981-82 school year, the school district employed 26 teachers who taught full- or part-time at the high school. With the principal and vice-principal, these teachers were equivalent to 22.5 full-time positions. Each full-time equivalent teacher at the high school taught an average of 5.1 periods each class day. Excluding the lunch period, the

high school scheduled a six-period day with each period lasting 62 minutes. Nearly all teachers had at least one period for planning and for conferences with students. By multiplying the average number of class periods taught at the high school by the average class size, the auditors determined that teachers at Wamego High School taught an average of 68.9 students each day. This is well below the maximum student load of 170 set by the North Central Association for Colleges and Schools standards for secondary schools.

The average number of students enrolled in a class at Wamego High School was 13.5. The number of students enrolled in a class varied from four students in Spanish II to 45 students in band. The bulk of the classes, 105 classes or 92.1 percent, had enrollments from one to 20 students. Also, 73 classes or 64 percent, had an enrollment of 15 students or less.

A total of 114 classes were taught at Wamego High School in 1982, the lowest number of total classes taught at any of the high schools reviewed to date. More than one-third of the classes in the district contain 10 or fewer students. This is more typical of the smaller high schools reviewed to date such as Gorham, Dorrance, and Lucas-Luray (all in the Russell County school district). In contrast to the large number of small classes, Wamego High School only had three classes, or 2.1 percent of the total, with more than 25 students in them. The average class size of 13.5 makes Wamego comparable to the Phillipsburg district--the other medium-sized district audited during 1982--which had an average class size of 13. The high schools reviewed during 1981 audits had average class sizes ranging from 19.1 at Spring Hill to 5.6 at Gorham.

Wamego's average teaching load of 68.9 students per day also closely compared to the Phillipsburg school district, with its average of 69 students per day. The high schools reviewed during 1981 had average teaching loads ranging from 32.0 at Gorham to 101.5 at Spring Hill.



CHAPTER V

MANAGING FACILITIES AND SUPPORT SERVICES

The auditors reviewed the district's facilities and support services to determine if they are managed efficiently and effectively. This review showed that the ratio of students per available classroom--particularly at the high school--was somewhat low, indicating that building space may be underutilized. However, there do not appear to be any reasonable possibilities for consolidating schools within the district or with neighboring districts at this time. Costs of maintaining buildings and transportation per student are lower than costs in similar-sized districts. Finally, in the food service area, the auditors found that the district could improve its procedures for approving applicants for free and reduced-price lunches by requesting verification of the families' reported incomes. These findings are discussed in the following sections.

School District Facilities

Wamego school district covers parts of three counties--Pottawatomie, Wabaunsee, and Riley. The district's administrative office is located in Pottawatomie County in downtown Wamego. The district's four schools--one high school, one middle school, and two elementary schools--are all located in the town of Wamego. Wamego High School includes grades nine through 12 and was built in 1938.

Wamego Elementary Middle School which houses grades seven and eight, was built in 1981 and is attached to the high school. Of the two elementary schools, Central Elementary School houses students in kindergarten through third grade and was built in 1963. A mobile classroom functions as a special education and testing area. West Elementary School was built in 1980 and houses students in grades four through six. Since 1977, the Wamego school district has maintained a gas station for use by the district's buses and driver training vehicles. However, the district's buses have no garage and are stored at the high school.

Four Schools Have Been Closed Since 1971 But Two Schools Have Been Built

In past years, the Wamego school district has had other schools in Wamego and in towns nearby. Because of aging buildings, declining enrollment in smaller towns of the district, and increasing enrollment in the Wamego area, these schools were closed and two new schools were

built--West Elementary School in 1980, and Wamego Elementary Middle School in 1981. Additional construction since 1981 has included the high school vocational-agriculture addition and the football stadium. All 1980-1981 construction was financed through a \$3,920,000 bond series, except for the vocational-agriculture addition, which was financed through existing capital outlay funds. No future construction is planned.

The District Has a Low Number of Students Per Classroom

The auditors examined the use of space in each school presently used and the building operation and maintenance costs per student. In fiscal year 1982, there were 90 rooms available for student use--46 in the two elementary schools, 13 in the junior high, and 31 in the high school. Based on fiscal year 1982 enrollments, there were 15.4 students per classroom in West Elementary School, 15.0 students per classroom in Central Elementary School, 16.3 students per classroom in the middle school, and 11.7 students per classroom in the high school. By analyzing periods of classroom occupancy in the schools, the auditors determined that the district had an adequate number of classrooms and some flexibility in scheduling their use, particularly in the high school. Even though the high school appears to have somewhat more available space for the number of students than the other three buildings, there do not appear to be any possibilities for consolidating buildings in the district without causing overcrowding.

Consolidating With Neighboring Districts Does Not Seem Reasonable

The auditors also examined the possibility of consolidating the Wamego schools with those in surrounding districts because the Wamego district and several of the neighboring districts are relatively small. The auditors examined several consolidation options including closing schools within 20 miles of Wamego in the Alma and Westmoreland districts and in the town of St. Mary's in the Kaw Valley district, and closing all schools in the Kaw Valley district. They found that in both cases that moving students from these districts to Wamego schools would likely cause overcrowding, particularly if enrollment in the Wamego school district increases as anticipated by district officials.

Maintenance and Operating Costs Have Been Low

In fiscal year 1981, the last year for which comparative information was available, the cost of maintaining and operating the school facilities was \$210,677 or \$204.24 per student. This amount was 24 percent less than the average of \$269.77 per student for school districts in the 400-1,600 enrollment category. In fiscal year 1982, the cost of maintaining and operating the school facilities was \$264,239 or \$264.22 per student, 29 percent greater than the district's 1981 per student figure. The increase was primarily due to an increase in utility rates and custodial salaries. In

addition, maintenance was required before two schools, which closed in fiscal year 1981, could be returned to their communities.

Transportation Services

The State provides transportation aid for every student who lives more than 2.5 miles from the school. The amount of aid per pupil is based on actual per-pupil costs, unless that cost exceeds a standard cost per pupil for districts with similar student population density. As a result of these laws, the district's transportation efficiency and the number of students it transports over 2.5 miles directly affects the amount of State aid to the district. The number of students transported under 2.5 miles directly affects the amount of local funds needed for transportation. The auditors found that while the district transports a substantial number of students, its costs per pupil appear to be low.

Transportation Costs Are Lower Than Comparable Districts

In fiscal year 1982, the district made transportation available to 438 pupils, or 42 percent of the 1,037 students in the district. A total of 285 students, (65 percent of those transported) lived more than 2.5 miles from the school. Each of these students lived outside of Wamego. Therefore, according to State law, transportation had to be provided for these 285 students. Transportation was also provided to 153 students who lived outside Wamego but less than 2.5 miles from school. These students did not have to be transported according to law. The district estimated regular route mileage at 101,338 for fiscal year 1982. In addition, there were 45,561 miles of activity trips and 70,361 miles driven for special education.

During fiscal year 1982, the district's expenditures for transportation were \$149,170, an increase of 27.8 percent over fiscal year 1978, when expenditures were \$116,717. In fiscal year 1982, the district received \$67,200 in State aid for transportation. This aid was awarded at the rate of \$235.79 for every student transported more than 2.5 miles. State aid has increased 4.8 percent since fiscal year 1978 and in fiscal year 1982, it paid for 45.05 percent of the district's transportation expenditures.

Although Wamego provides transportation for more students than is required by law, the district reported a cost of only \$215 per student transported in fiscal year 1981. Compared with districts that were similar in the number of square miles and the district density (number of students transported over 2.5 miles per square mile in the district), transportation costs in Wamego were lower than the average for other districts with similar densities, as noted in the accompanying table.

Wamego USD 320
Comparing FY 81 Transportation Costs
with Districts of Similar Square Miles and Densities

<u>USD #</u>	<u>Density</u>	<u>Square Miles</u>	<u>Students Over 2½ Miles</u>	<u>Cost Per Student</u>
Valley Heights #498	1.23	205.0	253.0	\$ 177.16
Wamego #320	1.46	193.0	281.0	214.99
Burlington #244	1.31	147.0	193.0	263.47
Altoona #387	1.63	192.0	313.0	271.34
Marion #408	1.30	237.0	307.0	326.27
Inman #448	1.26	144.0	181.0	355.29
Sterling #376	1.36	158.0	215.0	359.93
Durham #410	1.26	175.0	220.0	388.71
McPherson #418	<u>1.70</u>	<u>156.3</u>	<u>265.0</u>	<u>546.69</u>
Average	1.39	178.4	247.6	\$ 322.65

The District's Buses Appear to be Well Utilized

The district owns its buses and provides all transportation services to its students. By the end of the 1981-82 school year, the district owned a total of 19 buses. Nine were used daily on regular routes, as were three mini-buses, which were used to transport morning kindergarten students who return home at noon. Five buses were used primarily as spares and for activity trips. In addition, the district owns two 12-passenger vans and two trucks, and leases automobiles for use in driver education classes and by the Superintendent.

During the 1982-83 school year, the district was operating nine regular routes, plus the three afternoon kindergarten routes. Total miles driven each day on these routes ranged from a high of 96 miles to a low of 35 miles. The longest time any student rode a bus was about one hour and 10 minutes. The highest number of students on any route was 78; the lowest was 40. Overall, the auditors found that the district's current bus fleet appeared to be well utilized. It did not appear that any routes could have been served by smaller buses.

Food Service Program

During the 1981 school district audits, two areas of concern were raised regarding districts' food service programs. First, cuts in federal aid for lunch programs were forcing the audited districts to reduce program costs or increase lunch prices to keep their programs solvent. Second, between nine and 20 percent of a sample of families in those districts

whose children were receiving free or reduced-price lunches had understated their income on the lunch applications. Because the districts were not verifying the incomes reported, children from those families became eligible for free or reduced-price meals when they should not have been. The auditors reviewed the Wamego district's handling of its food service program in both areas, and found that the district absorbed federal cuts by increasing meal prices and that it should do more to verify income reported on lunch applications.

In fiscal year 1982, the Wamego school district served 122,487 lunches at a cost of \$1.12 per lunch. Funds available to supply the lunch program totaled \$147,848. Those funds came from meal charges to students and adults (60.8 percent), federal aid (28.5 percent), State aid (4.3 percent), and beginning balances (6.5 percent). The total cost of operating the food service program was \$137,540, an increase of almost eight percent from 1978 costs. As a source of funds, carry-over balances are a small portion--most of the program's available funds are from student lunch receipts and federal aid. No transfers from the General Fund have been needed since fiscal year 1979 to keep the Food Service Fund solvent.

The District Absorbed Federal Cuts by Increasing Meal Prices

The district received \$72,093 in federal lunch aid in fiscal year 1981, but budget cuts reduced its aid for fiscal year 1982 to \$42,108, a decrease of 42 percent. To generate additional revenue, the district raised the price of its lunches. Charges for lunches were increased from \$1.05 to \$1.35 for adult lunches, and the ranges for student lunches were increased from 60-65 cents to 80-90 cents. As a result, revenue from lunch receipts rose from \$65,750 in 1981 to \$89,824 in 1982.

The net effect of the decreases in federal and non-federal revenues was that the district's Food Service Fund had an ending balance of \$10,309 in fiscal year 1982, \$742 more than the fiscal year 1981 ending balance of \$9,567. In sum, balances in the Fund remained adequate even after federal aid was reduced.

Free and Reduced Price Meal Applications Require More Scrutiny

Children from families whose income is at or below levels set by the federal government are eligible to receive free or reduced price lunches. For a family of four, the cut-off level for free meals is \$12,090 a year, and for reduced-price lunches it is \$17,210. In fiscal year 1982, Wamego district served 105,823 lunches to students. Of these, 15,934 or 15.1 percent were free, and 6,164 or 5.8 percent were served at reduced prices. The district lost \$16,318 in student fees by providing these free and reduced meals. But the district received \$19,356 in federal aid for these meals above the amount of aid it would have received for regular lunches. As a result, the district gained \$3,038 by providing the free and reduced lunches.

During last year's school district audits, the Legislative Division of Post Audit found that a significant number of families in five school districts had understated their income on applications for free and reduced meals. Because of the high rate of falsified applications and the potentially large amounts of money involved, Legislative Post Audit recommended that the audited districts should either routinely or on a spot-check basis verify the income reported on lunch applications.

Many school districts argued that although they had authority under federal law to verify questionable applications, they had received no guidance on how to legally obtain such verification. During the Spring of 1982, the Department of Education redesigned the application form to request that each applicant provide documents such as wage stubs or copies of government benefit checks to verify the income reported on the application. However, the federal Food and Nutrition Service delayed approval of this new application until final regulations on the verification process had been approved. As of December 1982, those regulations had not been issued, and the new application form had not been approved.

In the interim, the Department has sent a revised application form to all school districts. This form does not request applicants to provide documentation, but does specify the types of income that may be reported, clarifies statements that information on the form may be verified, and clarifies the income that should be reported by self-employed persons.

Questionable applications are scrutinized in Wamego, but more can be done to request documentation. The auditors reviewed the application process for free and reduced-price lunches in the Wamego school district. The district is using the newer "interim" application form provided by the Department. The auditors reviewed the free and reduced lunch application approval process in the Wamego district. The district's approval process calls for the central office to review the applications. There, a designated staff person reviews, approves, or denies the applications and notifies applicants of the decisions.

To determine if this process was working as described, the auditors reviewed 24 applications processed during the 1981-1982 school year. This review revealed that in all but one of the cases, appropriate action was taken on the application. In that case, an application was denied which appeared to be eligible for reduced price lunches. According to the district, this determination was made in error and a new application from the same family was subsequently approved.

The auditors were not able to cross-check the incomes reported on a sample of these applications against individual income tax returns, as was done in the previous round of school district audits, because the Department of Revenue did not give them access to those tax records for the 1982 audits. Legislative Post Audit disagrees with the Department and

believes that the Legislative Post Audit Act provides access to such records. Because access was not granted, however, no judgment could be made regarding a specific rate of abuse in the district. However, they did note that the district's approval process does not call for any documentation of the incomes reported.

Despite the lack of federal approval for a method of verifying information on applications for free or reduced-price meals, school districts do have the authority to request that applicants provide copies of wage stubs or other documentation of income. Requesting documentation of at least a sample of applicants would likely discourage all applicants from understating their income. This request for documentation could be handled by central office personnel. Depending on the sample size, this request would not have to add noticeably to the district's administrative burden of processing those applications. Given the large number of applicants who understated their income during last year's check, it would seem both reasonable and desirable for the Wamego district to take this precaution against abuse of the free and reduced-price meals program.

Recommendation

The Wamego school district should request documentation of income from at least a sample of applicants for free and reduced-price meals to discourage applicants from understating their income.

APPENDIX A
Wamego School District
Sources of Funds
Fiscal Years 1978-1982

<u>Fund/Source</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>
<u>General Fund</u>					
Beginning Balances	\$ 111,589	\$ 109,287	\$ 116,768	\$ 145,459	\$ 441,097
County	46,924	305	880	17,270	58,508
Local	607,259	765,121	816,545	723,340	619,793
State	647,466	853,489	1,153,679	1,319,575	1,416,606
Federal	43,872	52,955	59,965	61,795	51,572
Reimbursement/Other	8,613	22,979	722	847	977
Total	<u>\$1,465,723</u>	<u>\$1,804,136</u>	<u>\$2,154,488</u>	<u>\$2,268,286</u>	<u>\$2,588,553</u>
<u>Special Education</u>					
Beginning Balances	\$ 357	\$ 18,734	\$ 94	\$ 755	\$ 669
Transfers	47,000	29,100	63,000	26,000	28,300
Local	23,177	-0-	-0-	-0-	-0-
Other	-0-	-0-	-0-	-0-	-0-
Total	<u>\$ 70,534</u>	<u>\$ 50,233</u>	<u>\$ 63,094</u>	<u>\$ 26,755</u>	<u>\$ 28,969</u>
<u>Food Service</u>					
Beginning Balances	\$ 15,317	\$ 12,089	\$ 18,902	\$ 4,613	\$ 9,567
State	3,098	6,359	3,686	8,010	6,349
Federal	46,752	58,718	56,596	72,093	42,108
Other (1)	57,088	63,257	62,413	67,150	89,824
Transfers	17,187	19,283	-0-	-0-	-0-
Total	<u>\$ 139,442</u>	<u>\$ 159,706</u>	<u>\$ 141,597</u>	<u>\$ 151,866</u>	<u>\$ 147,848</u>
<u>Adult Education</u>					
Beginning Balances	\$ -0-	\$ 94	\$ -0-	\$ -0-	\$ -0-
Class Fees	520	710	-0-	-0-	-0-
Total	<u>\$ 520</u>	<u>\$ 804</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Transportation</u>					
Beginning Balances	\$ 17,643	\$ 23,877	\$ 15,759	\$ 906	\$ 2,661
State	64,123 ²	78,217	88,730	88,067	67,200
Transfers	54,123 ²	27,000	36,000	43,800	82,600
Other	4,705	3,317	348	1,201	-0-
Total	<u>\$ 140,594</u>	<u>\$ 132,412</u>	<u>\$ 140,837</u>	<u>\$ 133,974</u>	<u>\$ 152,461</u>

- (1) Primarily student and adult lunch receipts.
(2) From Capital Outlay and General Fund in FY 1978.

<u>Fund/Source</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>
<u>Capital Outlay</u>					
Beginning Balances	\$ 5,622	\$ 62,385	\$ 348,912	\$ 451,368	\$ 316,422
County	-0-	26	76	1,996	6,801
Local	61,843	67,536	71,547	72,186	71,885
Interest	13,617	10,571	101,138	101,683	76,246
Other	177,567	5,257	11,202	4,550	4,227
Transfers	18,562	248,876	-0-	-0-	-0-
Total	<u>\$ 277,211</u>	<u>\$ 394,641</u>	<u>\$ 532,875</u>	<u>\$ 631,783</u>	<u>\$ 475,581</u> (3)
<u>Vocational Education</u>					
Beginning Balances	\$ 33,169	\$ 23,431	\$ 149	\$ 798	\$ 4,563
Local	30,939	-0-	-0-	-0-	-0-
State	3,949	2,970	4,389	4,382	3,364
Federal	1,890	2,787	5,845	9,550	4,587
Transfers	4,000	19,000	40,000	50,000	66,000
Other	1,391	-0-	-0-	72	-0-
Total	<u>\$ 75,338</u>	<u>\$ 48,188</u>	<u>\$ 50,383</u>	<u>\$ 64,802</u>	<u>\$ 78,514</u>
<u>Bilingual Education</u>					
Beginning Balances	\$ -0-	\$ -0-	\$ -0-	\$ 87	\$ 4,288
State	-0-	-0-	1,650	7,775	1,161
Total	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,650</u>	<u>\$ 7,862</u>	<u>\$ 5,449</u>
<u>Driver Education</u>					
Beginning Balances	\$ 6,364	\$ 546	\$ 1,186	\$ 478	\$ 1,186
State	4,201	3,242	4,640	4,038	2,397
Miscellaneous	520	240	280	40	-0-
Transfers	5,000	11,000	10,000	14,000	15,000
Total	<u>\$ 16,085</u>	<u>\$ 15,028</u>	<u>\$ 16,106</u>	<u>\$ 18,556</u>	<u>\$ 18,583</u>
<u>Textbook Rental</u>					
Cash Balance	\$ 451	\$ 948	\$ -0-	\$ -0-	\$ 1,014
Rental Fees	17,783	22,551	22,597	21,668	26,689
Total	<u>\$ 18,234</u>	<u>\$ 23,499</u>	<u>\$ 22,597</u>	<u>\$ 21,668</u>	<u>\$ 27,703</u>
<u>Bond and Interest #1</u>					
Beginning Balance	\$ -0-		\$ 25,959	\$ 175,197	\$ 157,019
Local	-0-		48,972	204,723	306,597
County	-0-		19	8,748	29,445
Interest	-0-		333,877	108,709	34,435
Miscellaneous	-0-	\$ 25,959	-0-	-0-	-0-
Total	<u>\$ -0-</u>	<u>\$ 25,959</u>	<u>\$ 408,827</u>	<u>\$ 497,377</u>	<u>\$ 527,496</u>

(3) In addition, the district had \$279,050 in a Special Capitol Projects Fund in 1982.

<u>Fund/Source</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>
<u>Jt. 19 Bond and Interest</u>					
Beginning					
Balances	\$ 14,962	\$ 15,848	\$ 16,712	\$ 16,815	\$ 15,832
Local	31,985	31,076	29,332	26,620	24,618
County	-0-	13	26	675	3,208
Miscellaneous	-0-	-0-	-0-	3	-0-
Total	<u>\$ 46,947</u>	<u>\$ 46,937</u>	<u>\$ 46,070</u>	<u>\$ 44,113</u>	<u>\$ 43,658</u>

APPENDIX B

Wamego High School Course Offerings 1981-1982 School Year

<u>Course Type and Title</u>	<u>Number of Students Enrolled</u>	<u>Number of Credit Units</u>
Language Arts		
English I		1.0
Section 1	16	
Section 2	15	
Section 3	7	
Section 4	8	
Section 5	16	
English II		1.0
Section 1	16	
Section 2	14	
Section 3	12	
Section 4	21	
Grammar/Composition I		0.5
Section 1	7	
Section 2	17	
Section 3	18	
College Prep. English	10	0.5
American Literature	10	0.5
Mass Media	19	0.5
Short Story	18	0.5
Acting I	13	0.5
Speech I	7	0.5
Newspaper	11	1.0
Forensics	8	0.5
Debate		0.5
Section 1	8	
Section 2	13	
Yearbook Production	15	1.0
Group Discussion	13	0.5
Total Units		<u>9.0</u>
Science		
Chemistry		1.0
Section 1	15	
Section 2	12	

<u>Course Type and Title</u>	<u>Number of Students Enrolled</u>	<u>Number of Credit Units</u>
Science (continued)		
Physics		1.0
Section 1	5	
Section 2	8	
Advanced Senior Science	9	1.0
Biology		1.0
Section 1	14	
Section 2	19	
Section 3	23	
Lab Science		1.0
Section 1	15	
Section 2	12	
Total Units		<u><u>5.0</u></u>
Mathematics		
Business Math	14	1.0
General Math	18	1.0
Algebra I		1.0
Section 1	17	
Section 2	18	
Geometry		1.0
Section 1	13	
Section 2	17	
Advanced Algebra & Trigonometry		1.0
Section 1	9	
Section 2	14	
Analysis	7	1.0
Advanced Math	6	1.0
Total Units		<u><u>7.0</u></u>
Social Studies		
American History		1.0
Section 1	20	
Section 2	20	
Section 3	17	
Section 4	8	
Section 5	21	
American Government		0.5
Section 1	12	
Section 2	18	
Section 3	16	
Psychology	6	0.5
Sociology	5	0.5
Total Units		<u><u>2.5</u></u>

<u>Course Type and Title</u>	<u>Number of Students Enrolled</u>	<u>Number of Credit Units</u>
Foreign Language		
Spanish I	5	1.0
Spanish II	4	1.0
Total Units		<u>2.0</u>
Fine Arts		
Introduction to Art	16	0.5
3D Design I		0.5
Section 1	10	
Section 2	13	
Drawing, Painting, Graphics	12	0.5
Visual Design I	8	0.5
Independent Study Program in Art	6	0.5
Band	45	1.0
Jazz Band	10	1.0
Mixed Choir	24	1.0
Concert Choir	27	1.0
Total Units		<u>6.5</u>
Home Economics and Shop		
Consumer Education	7	0.5
Home Economics I		1.0
Section 1	9	
Section 2	6	
Section 3	11	
Section 4	9	
Home Economics II		1.0
Section 1	6	
Section 2	17	
Advanced Clothing Construction	13	0.5
Pre-School Children		0.5
Section 1	9	
Section 2	12	
Mechanical Drawing I & II	10	2.0
Industrial Arts I		1.0
Section 1	13	
Section 2	17	
Section 3	12	
Advanced Woodworking	18	1.0
Welding I	13	0.5
Small Motors	10	0.5
Advanced Metals	10	0.5
Total Units		<u>9.0</u>

<u>Course Type and Title</u>	<u>Number of Students Enrolled</u>	<u>Number of Credit Units</u>
Agriculture		
Vocational Agriculture I	16	1.0
Vocational Agriculture II	9	1.0
Vocational Agriculture III	8	1.0
Vocational Agriculture IV	10	1.0
Agriculture Leadership	11	1.0
Total Units		<u>5.0</u>
Business		
Business Essentials I	20	1.0
Business Essentials II	7	1.0
Basic Business		1.0
Section 1	10	
Section 2	8	
Accounting I		1.0
Section 1	27	
Section 2	23	
Shorthand I and II	11	2.0
Elementary Typing		1.0
Section 1	13	
Section 2	12	
Section 3	13	
Section 4	17	
Advanced Typing	16	1.0
Total Units		<u>8.0</u>
Health and Physical Education		
First Aid and Safety	16	1.0
Drill Team/P.E.	16	1.0
Physical Education I		
Section 1	14	1.0
Section 2	20	
Section 3	14	
Advanced Physical Education		1.0
Section 1	9	
Section 2	18	
Section 3	11	
Total Units		<u>4.0</u>
Other		
Driver's Education		0.5
Section 1	17	
Section 2	16	
Section 3	13	
Section 4	23	

<u>Course Type and Title</u>	<u>Number of Students Enrolled</u>	<u>Number of Credit Units</u>
Other (continued)		
Career Education	20	0.5
Independent Study	8	0.5
Independent Study	8	1.0
Teacher's Aide	1	1.0
Teacher's Aide	1	0.5
Senior Workshop	1	0.0
Total Units		<u>4.0</u>
GRAND TOTAL (a)		<u>62.0</u>

(a) Excludes four students taking a total of 7.5 credit units at the Manhattan Area Vocational Technical School.

APPENDIX C

Wamego School District Response

UNIFIED DISTRICT NO. 320

815 FIFTH • PHONE (913) 456-7643

WAMEGO, KANSAS 66547

February 14, 1983

DR. NORRIS WIKA
Superintendent

RECEIVED
FEB 17 1983
DIVISION OF POST AUDIT

To: Dr. Richard Brown

From: Jim Tessendorf *JT*
President, Wamego USD 320 Board of Education

Re: Board of Education response to draft of Performance
Audit Report

In this written response to the audit of the Wamego USD, the board addresses itself to each of the recommendations contained in the preliminary draft and to one item of concern in the report which was not expressed in the form of a recommendation. That item is the contention that General Fund cash balances are larger than necessary for operation.

General Fund Cash Balances

The auditors state an opinion at the beginning of Chapter III of the report that USD 320's "General fund cash balances are larger than necessary for operations." This opinion is apparently reached after a study of the level of beginning fund balances over the five previous years, with particular attention given monthly general fund cash balances for the 1982 FY.

The auditors' judgment is stated in the absence of any criteria put forth on their part as to what permissible or advisable ending fund balances for a fiscal year should be. They do state on page 23 of the report the obvious condition that "school districts must have large fund balances at the beginning of the fiscal year because revenues from State and local sources come in slowly during the first months of the fiscal year."

While the auditors carefully refrain from issuing any statement or criteria of suitable maximums for fund balances, they use as their rule of thumb for a minimum monthly fund balance a sum not exceeding one-twelfth of annual expenditures. No effort is made to present the derivation of this rule of thumb or to state what is normative or typical for school districts in the state. In their analysis of monthly balances during FY 1982, the auditors state that for December of 1982 the fund balance was still \$130,225 above Post-Audit's definition of a minimum one-month cushion. Considering that the district's largest expenditures for payroll and monthly bills come in January before the end of month infusion of state aid and property tax, this definition of minimal "cushion" is surely meager.

Legislative Post Audit response. The auditors' analysis of the district's General Fund month-end balances was based on a set of conservative assumptions that acted to increase the amount of the cushion while decreasing the amount of the balances. These assumptions included removing all of December's General Fund receipts from the analysis. Thus, even if December's balances had dropped to the level of the one-month cushion, an additional \$121,746 would have been available to meet January expenses. Further, an examination of the district's January General Fund balance shows that, at its lowest point, the January balance was still higher than the December balance.

The report notes in several places USD 320's practice of budgeting the increases permitted each year by the legislature. The report also comments that in numerous areas of operation the school district has held its costs to favorable levels in comparison to other school districts. This combination of securing revenue at levels established by the legislature and of efficient management has enabled the district to increase its cash reserves over the last five years, especially so over the two previous fiscal years. One would expect that a public agency would be lauded for management which would create a suitable cash reserve. The Post Audit report concludes that this practice has been a "subsidization" of the "district's savings plan".

In concluding this section of the report, Post Audit staff observes correctly that one proper function of a cash reserve is to serve as a cushion against unexpected cuts in revenue. Action taken by the governor and legislature this fiscal year represent how real that contingency can be. The report suggests that perhaps the electorate would "prefer to increase taxes or cut programs at the time revenues are reduced, rather than allow the district to save money for lean times." This contention largely ignores the legal context in which a school district makes budgetary decisions.

In a school district, the largest single portion of the budget the district commits itself to at the beginning of the year is teachers' salaries. Anyone conversant with state law recognizes that those persons are protected for the year by contractual obligations with the district. The option of raising taxes during a fiscal year to meet changing conditions simply does not exist. School district budgets and subsequent tax rates are established at one time yearly.

In a time of general economic stress, rapid changes in the status of the state treasury and subsequent legislative response to that condition are difficult to predict. In Post Audit's own language, it is the "healthy cash position" of the Wamego school district which should enable it to survive this most recent reduction in funding without major cutbacks in services.

The locally elected school board has rather broad responsibility for the fiscal management of the school district. The local board feels it has carried out that responsibility prudently.

Recommendation (p. 27):

"To fully comply with the cash basis law and School District Equalization Act, the Wamego school district should monitor the balance of each special revenue fund more closely, and make transfers to those funds as needed from the General Fund."

Response:

At the beginning of the 1983 FY, the superintendent directed that transfers to special budgets would be made as needed to keep the funds solvent. This directive has been followed.

Recommendation (pp. 30 and 31):

"To increase investment earnings, the Wamego school district should set a limit on its checking account balance and invest amounts above that limit in higher-yielding investment instruments, such as certificates of deposit."

"The Wamego school district should convert its checking account to an interest-bearing account. In converting (to) this account, the district should also ensure that it earns the U.S. Treasury Bill rate of interest on its certificates of deposit, by taking its investments to other institutions---such as the local savings and loan or institutions outside of the district--if necessary."

Response:

During the 1982 FY, the board of education and administration studied the advantages of holding some district funds in some type of interest bearing checking account. Because of the advantages the banks offered the district on a total package of investments not including an interest bearing account, the board determined at that time not to convert to an interest bearing account.

Midway in the 1983 FY the bank in which the district maintains its checking account opened a type of savings account related to the weekly money market rate. This account offers a higher rate of return than ordinary passbook savings and is more liquid than long term investments such as CD's. The advantages of this program should meet the spirit of Post Audit's recommendations.

In addition, the administration has made every effort to monitor the flow of money such that money is kept in the type of investment which would offer the highest rate of return.

Recommendation (p. 33):

1. "The Wamego school district should adhere to State law by obtaining bids for all goods and materials that cost more than \$5000."

2. "The Legislature should consider amending State law to allow school districts to purchase items from regular vendors instead of special industries when doing so can decrease their cost. Prior to any change in State law, the Wamego school district should purchase all available items from Kansas Industries for the Blind or from Rehabilitation Services when such items are available."

Response:

With the 1983 FY, the district has made a concerted effort to obtain competitive bids on all significant expenditures, including those over \$5000. For items under \$5000 where formal bidding has not been required, the district has either obtained bids or has done more informal comparison shopping.

The district pledges a good faith effort to follow the statute regarding purchases from state industries. The district would welcome a change in statute which would make such purchasing on a more competitive basis.

Recommendation (p. 34):

"To ensure greater efficiency in purchasing procedures, the Wamego school district should:

1. Coordinate purchases of supplies with its schools and departments, combining purchase orders as much as possible.
2. Establish guidelines for using local purchase orders for all local purchases below a specified amount."

Response:

The district does make an effort to coordinate the purchase of classroom and janitorial supplies. The great bulk of supplies are ordered in the late spring and early summer months. These orders are pooled for possible savings. Exceptions come in at least two ways. Elementary classroom teachers have budgets which they may expend during the course of the school year. Occasionally they will order items for a special use. In addition, the art teachers will order items separately because of their preference for the merchandise from a particular vendor.

With the 1983 FY the administration has sought to require the use of local purchase orders for items which can more easily be obtained locally.

USD 320

Board of Education response to draft of Performance Audit Report

Recommendation (p. 42):

"To comply with K.A.R. 1982 Supp. 91-28-7, the Wamego school district should ensure that its high school requires at least the minimum credit units in each course area designated by the State for graduation from a high school. Those requirements should also be correctly documented in the Wamego High School Student Handbook."

Response:

USD 320 Board of Education rules specify graduation requirements which meet or exceed State requirements. These have been followed rigorously in determining eligibility for graduation. An error in the Wamego High School handbook lists a requirement of only one unit of social studies. This is in error and will be corrected with the next printing of the handbook.

Recommendation 2 (p. 51):

"The Wamego school district should request documentation of income from at least a sample of applicants for free and reduced price meals to discourage applicants from understating their income."

Response:

The district follows very closely procedures established by federal law in processing applications. When federal regulations for verification of income data are approved, those procedures will be followed.

In conclusion, the staff of USD 320 found the Post Audit on-site team to be courteous and professional in its conduct during the weeks the team worked in the district.