

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**Seattle School District No. 1**  
**King County**

Report Date  
**June 21, 2010**

**Report No. 1003871**

Issue Date  
**July 6, 2010**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

July 6, 2010

Board of Directors  
Seattle School District No. 1  
Seattle, Washington

***Report on Accountability***

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on Seattle School District No. 1's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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King County  
June 21, 2010**

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# Audit Summary

## Seattle School District No. 1 King County June 21, 2010

### **ABOUT THE AUDIT**

This report contains the results of our independent accountability audit of Seattle School District No. 1 for the period from September 1, 2008, through August 31, 2009.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. We examined the following areas during the audit:

- Conflict of interest/ethics
- Safeguarding of assets
- Teacher education and experience (staff mix) reporting
- Open public meetings/records laws
- Cash-receipting practices
- Building rental practices
- Payments
- Payroll
- Enrollment reporting
- Transportation reporting
- Fuel card use
- Purchase card use
- Sale of real property

### **RESULTS**

#### **Overarching Conclusion**

Our audit found the School Board and executive management must improve oversight of District operations. We noted several instances in which public assets were misappropriated or susceptible to misappropriation due to lack of effective policies, management's failure to enforce existing policies and/or inadequately trained staff.

The Board and District management are not as familiar with state and federal law on school district operations and on the use of grant funds as the public would expect. As a result, the District exposes itself to greater risk of loss of federal funds and increases the risk for non-compliance with laws and regulations.

Further, the School Board delegated authority to the Superintendent to create specific procedures to govern day-to-day District operations. The Board does not evaluate these procedures to determine if they are effective and appropriate. Consequently, our audit identified 12 findings included in this report and in our federal single audit and financial statement report.

## **Overarching Recommendation**

In order to resolve the conditions noted in the findings, we recommend Board members improve oversight of District operations. Board members should review the procedures created by the Superintendent and evaluate whether they are effective and appropriate for the District. It is the responsibility of the Board to hold executive management accountable for adherence to District policies.

In turn, executive management should hold staff accountable for following policies and procedures. This includes establishing and maintaining an internal control system designed to ensure compliance with laws, regulations and District policies and procedures, and one that safeguards public assets. Executive management should monitor for compliance and take action when issues arise.

## **Summary of Audit Issues**

In all areas that we audited, we found the District did not comply with state laws and regulations and its own policies and procedures. These conditions were significant enough to report as findings:

- The District did not comply with state law on recording meeting minutes and making them available to the public.
- The District did not report all known or suspected losses of public funds or assets to the State Auditor's Office as required by law.
- The District used capital project funds, which are restricted by state law, to pay for unallowable expenditures.
- The District overpaid employees due to a lack of adequate internal controls during a payroll system conversion.
- The School Board and District management have not implemented sufficient policies and controls to ensure the District complies with state laws, its own policies, or addresses concerns identified in prior audits.

We have communicated less significant issues to Board members and management. While we do not believe the significance of those recommendations warrants their inclusion in the audit report, we will reassess these issues during our subsequent audits. Prior audits have found executive management did not consistently communicate prior recommendations to District staff. We encourage management and Board members to do so in the future before the issues become more significant.

# Related Reports

## Seattle School District No. 1 King County June 21, 2010

### ***FINANCIAL***

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements. That report includes one finding:

- Lack of adequate internal controls over financial statement preparation, payroll processing and accounting for expenditures.

### ***FEDERAL GRANT PROGRAMS***

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Federal Summary section of the financial statement and single audit report. That report includes six federal findings regarding:

- The District charging payroll costs to Title I for an instructional assistant who it knew did not meet highly qualified teacher requirements.
- A lack of internal controls over billing payroll costs to the State Fiscal Stabilization Fund (Recovery Act).
- A lack of internal controls to ensure compliance with federal procurement requirements.
- The District did not comply with federal requirements over Safety Net money, which is used to assist in paying special education costs when the cost of educating a special needs student exceeds available resources.
- A lack of adequate internal controls to ensure the required parent committee is established for its Indian Education program.
- A lack of adequate internal controls to ensure compliance with eligibility requirements for its Indian Education program.

# Description of the District

## Seattle School District No. 1 King County June 21, 2010

### ***ABOUT THE DISTRICT***

Seattle School District No. 1 serves more than 45,000 students and operates 12 high schools, nine middle schools, 51 elementary schools, 10 kindergarten through eighth grade schools and six alternative schools and special programs. District activities are monitored by an elected, seven-member Board of Directors. The Board oversees the governance of the District and appoints a Superintendent to oversee District operations.

The District had operating budgets of \$556 million for the 2008-2009 school year and \$519 million for the 2007-2008 school year.

### ***ELECTED OFFICIALS***

These officials served during the audit period:

#### Board of Directors:

District 1	Peter Maier
District 2	Sherry Carr
District 3	Harium Martin-Morris
District 4	Michael DeBell
District 5	Mary Bass
District 6	Steve Sundquist
District 7	Cheryl Chow

### ***APPOINTED OFFICIALS***

Superintendent	Maria Goodloe-Johnson
Chief Academic Officer	Carla Santorno
Chief Financial and Operations Officer	Don Kennedy
Legal Counsel	Gary Ikeda
Accounting Manager	Ronic Lirio
Internal Auditor	Kariuki Nderu

## ***DISTRICT CONTACT INFORMATION***

Address: Seattle School District No. 1  
P.O. Box 34165  
Seattle, WA 98124-1165

Phone: (206) 252-0000

Web site: [www.seattleschools.org](http://www.seattleschools.org)

## ***AUDIT HISTORY***

We audit the District annually. The past four audits reported the following:

- In the 2005 audit, we reported two findings. Cash receipts were misappropriated or lost at three schools. Associated Student Body public money was inappropriately deposited in private bank accounts.
- In the 2006 audit we reported two findings. Internal controls over payroll were inadequate resulting misappropriated public funds and questionable payments. Internal controls over enrollment reporting were inadequate.
- In the 2007 audit we reported four findings, two in the report of financial statements and federal single audit. Internal controls over payroll continue to be inadequate and, as a result, public funds were misappropriated. Associated Student Body funds were spent for unallowable purposes and processed in violation of District policies. Unallowable expenditures occurred and the District lacked internal controls to ensure compliance with reporting requirements for the Gear-Up grant, which was designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education.
- In the 2008 audit we reported six findings, four of which were in the report of financial statements and federal single audit. Internal controls over financial statement preparation and payroll processing continue to be inadequate, as a result, the financial statements contained errors and public funds were misappropriated. We also reported findings for failing to report all known or suspected losses to the State Auditor's Office and incorrectly reporting teacher education and experience.



# Schedule of Audit Findings and Responses

## Seattle School District No. 1 King County June 21, 2010

### 1. **The Seattle School District did not comply with state law on recording meeting minutes and making them available to the public.**

#### **Description of Condition**

The Seattle School Board regularly meets on the first and third Wednesdays of each month. The Board also averages approximately two workshops each month and one retreat each quarter.

When an agency has a meeting at a time other than a regularly scheduled meeting, it is conducting a special meeting. State law requires governmental agencies maintain minutes of regular and special meetings and make them available upon request.

We determined the Board did not record minutes at retreats and workshops in the 2008-2009 school year. These retreats and workshops were held to discuss the budget, student assignment boundaries, school closures and strategic planning.

#### **Cause of Condition**

District personnel stated they were not aware that retreats and workshops constituted a regular or special meeting and did not keep minutes.

#### **Effect of Condition**

When minutes of special meetings are not promptly recorded, information on Board discussions is not made available to the public.

#### **Recommendation**

We recommend the District establish procedures to ensure that meeting minutes are promptly recorded and made available to the public.

#### **District's Response**

*The District concurs with the finding and the requirement under the OPMA that any meeting of a quorum of the board members to discuss district business is to be treated as a special or regular meeting for the purposes of the OPMA.*

#### **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable Laws and Regulations**

RCW 42.32.030, Minutes, states:

The minutes of all regular and special meetings except executive sessions of such boards, commissions, agencies or authorities shall be promptly recorded and such records shall be open to public inspection.

# Schedule of Audit Findings and Responses

## Seattle School District No. 1 King County June 21, 2010

### 2. **The Seattle School District did not report all known or suspected losses of public funds or assets to the State Auditor's Office as required by law.**

#### **Background**

State law (RCW 43.09.185) says "state agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity." The law does not set a dollar threshold for reporting.

Five times in the last six years, we have reported the District does not comply with this reporting requirement. During our current audit, we again noted the District is not reporting all known or suspected losses to our Office.

#### **Description of Condition**

We asked the District to provide a report on all property losses that had occurred since the prior audit and a list of items shown as misappropriated in the asset database. From these lists and police reports, we were able to identify at least nine losses the District did not report to our Office. Some of the items were computers, digital cameras and camcorders. The dollar value assigned to the lost or misappropriated assets not reported to our Office was at least \$7,412. The District had not assigned a value to some of the items.

#### **Cause of Condition**

While the District adopted a system for its employees to use to notify our Office and designated an employee to do so, the notifications stopped in October 2009 because the Internal Auditor forgot to contact our Office. All nine losses not reported occurred after the Internal Auditor stopped reporting. In addition, employees failed to follow the District's loss reporting procedures.

#### **Effect of Condition**

The District is not complying with the law. It is not providing citizens accountability and transparency over public resources. Also, it is unable to locate these items or recover losses from individuals.

#### **Recommendation**

We repeat our recommendation that the District comply with state law regarding the reporting of all known or suspected losses or other illegal activity. It should notify all staff

of the requirement, establish written reporting procedures, and identify a lead staff member to work with District security, individual schools and other District staff to ensure compliance.

### **District's Response**

*We concur with the finding that the District did not report the details of computer theft on December 14, 2009. In the future, the District will report all thefts within the District buildings to the State Auditor's office to ensure completeness.*

### **Auditor's Remarks**

We thank the District for its response and remind the District that reporting to our office includes known and suspected losses of public funds or assets *or other illegal activity*. We look forward to reviewing the District's corrective action during our next audit.

### **Applicable Laws and Regulations**

Revised Code of Washington (RCW) section 43.09.185 states, in its entirety:

State agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity.

*Accounting Manual for Public School Districts*, Chapter 3, Section 1, states:

Loss of Public Funds Known or suspected loss of public funds or other illegal activity must be immediately reported to the State Auditor's office (RCW 43.09.185.) Districts should contact their local audit manager.

# Schedule of Audit Findings and Responses

## Seattle School District No. 1 King County June 21, 2010

### 3. The Seattle School District used capital project funds, which are restricted by state law, to pay for unallowable expenditures.

#### Background

The District administers a Small Business Development Program to help small businesses overcome barriers to growth. It offers free training in various areas, one-on-one assistance and project management services.

We noted the District used capital project funds to operate the program, including purchasing consulting services and paying for outreach. It also uses this money to pay for program staff's salaries and benefits.

State law restricts the use of school district capital projects funds. The Office of Superintendent of Public Instruction gives guidance on the use of this money through its *Schools Accounting Manual*.

#### Description of Condition

The District used more than \$1.8 million in capital project funds to pay program costs from September 1, 2007, through August 31, 2009.

According to the Manual, this money may be used only for purchasing land or buildings; constructing buildings, equipment purchases, energy audits and capital improvements identified during those audits. and technology systems and other capital improvements, such as roof replacements.

The program's activities are not consistent with purposes allowed by state law.

The District stated some program expenditures were valid because they are related to District construction projects. However, the District did not have documentation of how the program and the projects were related, including which program costs were valid.

#### Cause of Condition

District staff was not aware of state law on the use of capital project money or of the guidance provided in the *Schools Accounting Manual*.

They believed that since the Small Business Development Program provides services to contractors that might work on District capital projects, it was allowable to pay program costs with capital project money. The District paid \$1.8 million of program expenditures with the restricted funds.

## Effect of Condition

When restricted use Capital Projects funds are used for unallowable purposes, the money is not available for legal and intended uses. In addition, the budgets for the capital project funds included expenditures that were not allowed by state law.

Most money for the Capital Project Funds comes from taxes and bonds. Funding the Small Business Development Program with these sources was not mentioned in the authorizing resolutions. Voters may not be aware that the taxes they pay are being used for this purpose.

## Recommendation

We recommend the District:

- Improve controls over budgeting and use of restricted Capital Projects funds.
- Reimburse the Capital Projects Funds for Small Business Development Program costs from the General Fund.

We further recommend the District properly budget and account for Small Business Development Program revenues and expenditures.

## District's Response

*The District concurs with this finding, to the extent it addresses costs which are not directed towards specific District projects. Some activities of the Small Business Development Program, while of benefit to District capital projects generally, are by their nature not eligible to be funded from Capital Project Funds. These activities including: training of small business contractors, marketing and outreach and recruitment of small business contractors which is not directed to a specific Capital project. In addition to consulting costs incurred, portions of the program's staffing and some costs related to staffing were also inappropriately charged.*

*The District will quantify ineligible charges and reimburse the Capital Projects Fund. The District will also adjust the Small Business Development program to be in compliance with accounting and reporting requirements. Finally, all appropriate staff will be trained on appropriate use of restricted Capital Projects funds.*

## Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## Applicable Laws and Regulations

RCW 28A.320.330, School funds enumerated--Deposits—Uses, states:

School districts shall establish the following funds in addition to those provided elsewhere by law:

(1) A general fund for maintenance and operation of the school district to account for all financial operations of the school district except those required to be accounted for in another fund.

(2) A capital projects fund shall be established for major capital purposes. All statutory references to a "building fund" shall mean the capital projects fund so established. Money to be deposited into the capital projects fund shall include, but not be limited to, bond proceeds, proceeds from excess levies authorized by RCW 84.52.053, state apportionment proceeds as authorized by RCW 28A.150.270, earnings from capital projects fund investments as authorized by RCW 28A.320.310 and 28A.320.320, and state forest revenues transferred pursuant to subsection (3) of this section.

Money derived from the sale of bonds, including interest earnings thereof, may only be used for those purposes described in RCW 28A.530.010, except that accrued interest paid for bonds shall be deposited in the debt service fund.

Money to be deposited into the capital projects fund shall include but not be limited to rental and lease proceeds as authorized by RCW 28A.335.060, and proceeds from the sale of real property as authorized by RCW 28A.335.130.

Money legally deposited into the capital projects fund from other sources may be used for the purposes described in RCW 28A.530.010, and for the purposes of:

(a) Major renovation and replacement of facilities and systems where periodical repairs are no longer economical or extend the useful life of the facility or system beyond its original planned useful life. Such renovation and replacement shall include, but shall not be limited to, major repairs, exterior painting of facilities, replacement and refurbishment of roofing, exterior walls, windows, heating and ventilating systems, floor covering in classrooms and public or common areas, and electrical and plumbing systems.

(b) Renovation and rehabilitation of playfields, athletic fields, and other district real property.

(c) The conduct of preliminary energy audits and energy audits of school district buildings. For the purpose of this section:

(i) "Preliminary energy audits" means a determination of the energy consumption characteristics of a building, including the size, type, rate of energy consumption, and major energy using systems of the building.

(ii) "Energy audit" means a survey of a building or complex which identifies the type, size, energy use level, and major energy using systems; which determines appropriate energy conservation maintenance or operating procedures and assesses any need for the acquisition and installation of energy conservation measures, including solar energy and renewable resource measures.

(iii) "Energy capital improvement" means the installation, or modification of the installation, of energy conservation measures in a building which measures are primarily intended to reduce energy consumption or allow the use of an alternative energy source.

(d) Those energy capital improvements which are identified as being cost-effective in the audits authorized by this section.

(e) Purchase or installation of additional major items of equipment and furniture: PROVIDED, That vehicles shall not be purchased with capital projects fund money.

(f)(i) Costs associated with implementing technology systems, facilities, and projects, including acquiring hardware, licensing software, and online applications and training related to the installation of the foregoing. However, the software or applications must be an integral part of the district's technology systems, facilities, or projects.

(ii) Costs associated with the application and modernization of technology systems for operations and instruction including, but not limited to, the ongoing fees for online applications, subscriptions, or software licenses, including upgrades and incidental services, and ongoing training related to the installation and integration of these products and services. However, to the extent the funds are used for the purpose under this subsection (2)(f)(ii), the school district shall transfer to the district's general fund the portion of the capital projects fund used for this purpose. The office of the superintendent of public instruction shall develop accounting guidelines for these transfers in accordance with internal revenue service regulations.



(g) Major equipment repair, painting of facilities, and other major preventative maintenance purposes. However, to the extent the funds are used for the purpose under this subsection (2)(g), the school district shall transfer to the district's general fund the portion of the capital projects fund used for this purpose. The office of the superintendent of public instruction shall develop accounting guidelines for these transfers in accordance with internal revenue service regulations. Based on the district's most recent two-year history of general fund maintenance expenditures, funds used for this purpose may not replace routine annual preventive maintenance expenditures made from the district's general fund.

(3) A debt service fund to provide for tax proceeds, other revenues, and disbursements as authorized in chapter 39.44 RCW. State forest land revenues that are deposited in a school district's debt service fund pursuant to RCW 79.64.110 and to the extent not necessary for payment of debt service on school district bonds may be transferred by the school district into the district's capital projects fund.

(4) An associated student body fund as authorized by RCW 28A.325.030.

(5) Advance refunding bond funds and refunded bond funds to provide for the proceeds and disbursements as authorized in chapter 39.53 RCW. [2009 c 460 § 1. Prior: 2007 c 503 § 2; 2007 c 129 § 2; 2002 c 275 § 2; 1990 c 33 § 337; 1983 c 59 § 13; 1982 c 191 § 6; 1981 c 250 § 2. Formerly RCW 28A.58.441.]

ADOPTED November 5, 2003  
RESOLUTION NO. 2003-29

A RESOLUTION of the Board of Directors of Seattle School District No. 1, King County, Washington, providing for the submission to the qualified electors of the district at a special election to be held therein on February 3, 2004, of a proposition to authorize the district to levy an additional tax to provide a total of \$178 million for the District's Capital Projects Fund for construction, replacement, renovation, improvements and expansion of new and existing facilities, and for technology improvements, equipment and training, to meet the current and future educational programs for its students, such levies to be made for six years commencing in 2004 for collection in the school years from 2004-2005 through 2010-2011 . . .

Section 2. Authorization of Construction, Remodeling and Modernization. The District shall construct, remodel and modernize its educational facilities throughout the District. These projects shall include building reinvestments, including roof replacements, mechanical systems and interior and exterior renovations, life safety and ADA compliance, acquisition of technology and technical infrastructure, including internet wiring and administrative systems, and the construction, remodeling and

modernization of libraries and science facilities, auditorium and art facilities improvements, playgrounds and athletic fields and other academic facilities and other Capital Fund expenditures as may be found necessary by the Board of Directors.

The District may repay any obligations hereafter incurred for the foregoing purposes.

If available funds are sufficient, the District shall acquire, construct, equip and make other capital improvements to the facilities of the District, all as the Board of Directors finds necessary; provided that such funds may be used only to support the construction, modernization, replacement, and remodeling of school facilities or implementation of the District's technology facilities plan . . . .

PROPOSITION NO. 2  
SEATTLE SCHOOLS DISTRICT  
CAPITAL LEVY

The Board of Directors of Seattle School District # 1 passed Resolution #2003-29 concerning this proposition to fund the Buildings, Technology, and Academics II Program. This proposition authorizes the District to levy the following excess taxes, to replace the expiring Buildings, Technology, and Academics I levy, on all taxable property within the District, for construction and modernization of educational facilities throughout the District . . . .

ADOPTED October 18, 2006  
RESOLUTION NO. 2006/07-3

A RESOLUTION of the Board of Directors of Seattle School District No. 1, King County, Washington, providing for the submission to the qualified electors of the district at a special election to be held therein on February 6, 2007, of a proposition approving a program to renovate, replace or expand four high schools, two middle schools and one K-8 school and make other capital improvements; to issue \$490,000,000 in general obligation bonds with a maximum term of seven years; and to levy property taxes to repay the bonds and to replace the expiring capital levy, not to exceed \$81,666,667 annually, for six years . . . .

Section 2. Authorization of Construction and Modernization Improvements. The District shall modernize and expand its school facilities through the following programs:

- (1) Middle /K-8 school improvements including full renovation of Hamilton, and replacement of South Shore and Denny.
- (2) High School improvements including renovation of Chief Sealth and Nathan Hale, addition at Ingraham and modernization of Rainier Beach Career and Technology facilities.

(3) Infrastructure improvements for water piping, indoor air quality and synthetic sports turf, including contributions to Hiawatha Playfield with Seattle Parks for conversion to synthetic turf.

(4) Technology equipment and training.

The District may repay any obligations hereafter incurred for the foregoing purposes . . . .

PROPOSITION NO.  
SEATTLE SCHOOL DISTRICT  
CAPITAL PROGRAM- \$490,000,000

The Board of Directors of Seattle School District No. 1 adopted Resolution #2006/07-3 concerning this proposition for bonds. This proposition approves a program to renovate or replace four high schools, two middle schools and one K-8 school and make other capital improvements, to issue \$490,000,000 in general obligation bonds with a maximum term of seven years; and to levy additional property taxes to repay the bonds and to replace the expiring capital levy, not to exceed \$81,666,667 annually for six years . . . .

*Accounting Manual for Public School Districts*, Chapter 9 – Information Unique to Each Fund Capital Projects Fund, states in part:

The Capital Projects Fund can be used for the acquisition of land or existing facilities, construction of buildings, purchase of equipment, conducting energy audits, making capital improvements, which are cost effective as determined by energy audits, and implementing technology systems. In addition, improvements to buildings and/or grounds, remodeling of buildings, and the replacement of roofs, carpets, and service systems are included in the Capital Projects Fund.

The Capital Projects Fund is generally financed from the proceeds of the sale of bonds, state matching revenues, and special levies. In all instances where moneys are raised by voter-approved bond issues, the proposition must include a description of the projects for which the money is being raised. RCW 28A.530.010 authorizes school districts to issue bonds for certain capital projects. The acquisition of school buses is not a capital project. Therefore, the proceeds of bonds issued pursuant to RCW 28A.530.010 cannot be used to acquire school buses.

The Capital Projects Fund is also used to record the proceeds from the sale of, and the net proceeds from the lease of surplus real property and to record investment earnings of the Capital Projects Fund.

. . . The focus of Capital Projects Fund accounting is on the sources and uses of available resources, and the accounting and reporting is on an annual period-oriented basis. The accounting records must contain sufficient information to permit special purpose reporting on a project-length basis.

## Capital Projects Fund Allowable Expenditures by Revenue Source Revenues Expenditures

**Sale of Bonds** Bond revenue is restricted to sites and buildings as authorized by law or necessary or proper to carry out the functions of a school district, improvement of energy efficiency and installation of energy systems and components, and structural changes and additions to buildings and sites. The purchase of initial equipment as defined in this section is also allowable. The resolution approving the election shall include the specific buildings to be constructed or remodeled and any additional specific purposes as authorized under RCW 28A.530.010. Expenditures are restricted to those authorized in the bond resolution. Any alteration of the expenditure plan requires a public hearing (RCW 28A.530.020).

**Special Levies** Special levies are restricted to the following: the same purposes that bond proceeds may be used for, major renovations of building including the replacement of facilities and systems where periodic repairs are no longer economical. Also, the renovation and rehabilitation of playfields and athletic fields can be accomplished with Capital Projects Fund special levies. The purchase of initial equipment, additional major items of equipment and furniture, and the costs associated with implementing technology systems as defined in this section are allowable. The resolution approved by the voters authorizing the special levy must include the purpose for raising the moneys.

**Investment Earnings** Investment earnings from the proceeds of bonds, special levies, and impact/mitigation fees are restricted to the same purposes as proceeds from their source. Interest earnings from all other sources may be used for any legal purpose of the Capital Projects Fund. Further, investment earnings from unrestricted revenue sources can be redirected to the General Fund, with Board approval, for expenditures for instructional supplies, equipment, and capital outlay purposes.

### Capital Outlay Expenditures

Capital outlay expenditures are those which result in the acquisition of capital assets or additions to capital assets. They include capital expenditures for land or existing buildings, improvements to grounds, construction of buildings, additions to buildings, remodeling of buildings, and purchase or installment of initial or additional major items of equipment. Include expenditures for facilities to house students during the construction or remodeling of a school building. Legal fees for capital projects are chargeable to the Capital Projects Fund. Election costs may be charged to the Capital Projects Fund upon passage of the levy. Election costs for failed levies are charged to the General Fund but may be reimbursed by the Capital Projects Fund if the levy passes at a later time, provided it is within the same fiscal period.

## Salaries

The salaries and other direct expenditures of school district employees who are hired or assigned to the planning or construction management of capital projects, which have been approved as provided above, are recorded under the Capital Projects Fund.

Capital projects' planning includes the development of facility specifications and construction design. It is defined as preparing specifications for building projects or preparing architectural blueprints or other design specifications by planning directors, architects, engineers, or draftsmen who spend significant time performing these duties. Salaries for capital project planning are not to be charged to the Capital Projects Fund for a specific project after the facility specifications or the construction design planning has been completed. Planning for the operation of existing facilities is not to be charged to the Capital Projects Fund.

Construction management, as it pertains to capital projects, is defined as directing, managing, or inspecting one or more capital projects. Salaries of staff project directors, inspectors, or monitors who spend significant time performing these services are designated as construction management salaries. Salaries for construction management shall not be charged to the Capital Projects Fund after the building is occupied and accepted by school district board action.

The salaries of individuals who spend time performing duties that directly support capital project planning or construction management are to be charged directly to the Capital Projects Fund. Salaries of individuals engaged in the operations of the school district are not to be charged to the Capital Projects Fund. However, costs for staff paid to move their classroom/office as a direct result of a remodel or construction may be charged to the Capital Projects Fund. Salaries of individuals who also perform duties chargeable to another fund should be allocated in proportion to their duties to both the Capital Projects Fund and the other fund. Capital Projects Fund salaries may be processed through the General Fund, which is then reimbursed by the Capital Projects Fund.

Real estate management salaries are not to be charged to the Capital Projects Fund.

When salaries are charged to the Capital Projects Fund, school districts may wish to maintain an object of expenditure to account for salaries and other expenditures.

## Repairs

Expenditures for repairs to building structures that do not add to existing facilities are recorded under the General Fund Activity 64 Maintenance. As a general guide concerning repairs to building structures, if changes of partitions, roof structure, or walls are not involved, the expenditures are

recorded under the General Fund Activity 64 Maintenance; if such changes are involved, the expenditures are recorded under the Capital Projects Fund as remodeling.

#### Renovations

The Capital Projects Fund records major renovations consisting of the replacement of roofing, floor covering, or service systems when periodic repairs are no longer economical. Replacement is the replacement of a unit of equipment or fixture with another unit or fixture that serves the same purpose in the same way and has approximately the same expected lifetime as the replaced unit when installed. Normal repairs should be charged to the General Fund Activity 64 Maintenance.

#### Initial Equipment

Expenditures for initial equipment for a new or remodeled building or for a structure being converted from one use to another use are recorded in the Capital Projects Fund. Expenditures for initial equipment or the initial installation of built-in equipment in existing buildings are recorded under the Capital Projects Fund.

Initial expenditures for a new or remodeled building or a structure being converted from one use to another use for the purchase of library, text, and reference books or materials in any format, including electronic, are allowable as initial equipment. Items of a consumable nature (for example, workbooks) are not allowable expenditures of the Capital Projects Fund because they are not capital in nature.

Expenditures for repairs and for replacements not discussed above are recorded under the General Fund Activity 64 Maintenance as repairs to buildings, regardless of the relative value of the replaced item of equipment and its replacement. The purchase of additional equipment may be recorded in the General Fund.

#### Replacement

Expenditures for the replacement of a building or for the replacement of facilities and systems are recorded under the Capital Projects Fund. Expenditures for the repair of capital assets are recorded under the General Fund Activity 64 Maintenance.

#### Acquisition or Relocation of Modular (Portable) Buildings

Expenditures for the acquisition or relocation of modular (portable) buildings should be charged to the Capital Projects Fund.

#### Energy Capital Improvements

Expenditures for the initial installation of energy capital improvements in buildings and during the remodeling of existing buildings are recorded under the Capital Projects Fund. Expenditures for repairs and

replacements are recorded under the General Fund Activity 64 Maintenance as repairs to buildings. Energy-efficient systems as a part of the initial equipment of a new building should be charged to the Capital Projects Fund.

#### Ineligible Expenditures in the Capital Projects Fund

##### Supplies, Instructional Resources, and Noncapitalized Items

Except for office supplies consumed by employees whose time is properly charged to the fund, all other supplies are not eligible expenditures. Items of a consumable nature (e.g., workbooks) are not allowable expenditures of the Capital Projects Fund because they are not capital in nature . . . .

# Schedule of Audit Findings and Responses

## Seattle School District No. 1 King County June 21, 2010

### 4. The Seattle School District overpaid employees due to a lack of adequate internal controls during a payroll system conversion.

#### Background

The District had operating budgets of \$556 million for the 2008-2009 school year and \$519 million for the 2007-2008 school year. Expenditures for payroll and benefits totaled \$438.1 million for 2008-2009 and \$396.2 million for 2007-2008, or 79 percent and 76 percent of the operating budgets, respectively.

When transitioning to a new payroll system in September 2007, District staff manually transferred each employee's pay rate from the old system into the new system. The District did not run a parallel system that would have ensured all transferred data was accurate and complete. District staff stated installation of the new payroll system was poorly planned and executed. They also stated management did not provide adequate training on the new system and the tools they needed to detect and correct errors in data entry and pay.

We reported weaknesses in the payroll system in our 2008 and 2009 audits of the District's financial statements. We found the District:

- Did not design internal controls to adequately address the increased risks of error or inappropriate entries associated with manual entries.
- Does not monitor manual payroll entries posted to the general ledger.
- Does not reconcile amounts posted between the payroll system and the general ledger or review the accuracy of classification and coding once payroll is posted.
- Has not ensured staff has sufficient knowledge of and experience with the new payroll system to operate it correctly.
- Does not have adequate internal controls to address the increased risks of error or inappropriate entries related to manual data entry.

On May 24, 2010, we issued the District's financial statement and single audit report, which indicated we would issue a special report later this year regarding payroll overpayments. Instead of that report, this finding contains the results of our complete investigation of the overpayments.



## Description of Condition

In August 2009, as required by state law, the District notified the State Auditor's Office of a loss of public funds through payroll overpayments to an employee. The District discovered the employee had been paid at an incorrect rate for two years, causing this employee to be overpaid \$30,000. The District initially concluded this was an ethics violation by the employee because it should have been reported to the District. Although the employee may have violated District ethics policy in that the issue should have been reported, we determined a systemic weakness led to overpayments to an unknown number of District employees.

To date, the District has identified 83 employees who have been overpaid. These individual overpayments range from \$175 to \$40,000 since the conversion to the new payroll system.

	<b>Number of employees</b>	<b>Dollars</b>
Total overpayment	83	\$228,860
Total refunded		\$41,423
Uncollected balance		\$187,437

Also, the District believes additional overpayments of at least \$105,080 were made to at least 61 other employees.

The District has stated it does not believe it can determine the total number of employees overpaid or by how much.

Moreover, the District has not collected known overpayments of \$45,416 to 14 former employees. This amount reflects what was recorded as owed in District records as of the time the employee separated from District employment. The District does not have written policies or procedures to ensure all funds owed to the District are collected when employees leave its employment.

The District has entered into 58 repayment agreements with District staff members. Repayments are made according to a monthly installment schedule agreed on by the employee and the District. In some instances, the employee has up to six years to make full repayment. All these agreements are in writing and signed by the employees.

We identified at least one instance in which an overpayment was made with federal grant money. Federal grantors typically restrict how funds may be used. The overpayment charged to the grant was \$8,080. We reported a federal finding and questioned costs in our 2009 federal single audit report regarding these overpayments.

## Cause of Condition

The errors occurred when human resources staff manually entered inaccurate pay rates and pay types into the payroll system during payroll system conversion. No effective control or validation process was in place, so errors were not detected.

## Effect of Condition

The overpayments represent funds that would otherwise be available for District operations. The overpayment of salaries charged to the federal grant represents noncompliance with grant requirements. Due to the District's inability to efficiently identify all overpayments, the extent of unallowable costs charged to the federal grant is unknown. Noncompliance with federal grant requirements could jeopardize future federal funding and require the District to return federal funds to the grantor.

## Recommendation

We recommend the District:

- Determine the total number of employees and former employees overpaid, how much they were overpaid, and attempt to collect these amounts.
- Take immediate steps to improve controls to ensure payroll is accurate and to prevent overpayments.
- Notify employees of payroll inaccuracies and have employees confirm the accuracy of their pay.
- Contact its grantors to resolve questioned costs.
- Contact the Internal Revenue Service regarding any tax implications.
- Contact other benefit providers, such as the state Department of Retirement Systems, regarding what action the District needs to take to correct deductions based on erroneous pay rates.
- Develop and follow policies and procedures for information system replacement to ensure they are not deployed prior to proper development of effective error detection tools, and before users are properly trained.
- Immediately notify our Office of all known or suspected losses, including employee overpayments.

## District's Response

*The District concurs with the State Auditor's finding as noted. The District has implemented control processes to prevent overpayments and will continue to identify any instances of overpayment and take timely steps to collect these amounts. The District will refine its collection processes to make repayments both more timely and structured. The District will continue recently improved internal controls to ensure accuracy of payroll and will implement additional controls as warranted. In addition to these internal controls, all employees will be notified of their responsibility to promptly report payroll discrepancies. Grantors will be contacted as appropriate to resolve any questioned costs. In cases of overpayment, adjustments (e.g. earning statements, benefit and tax deductions, etc.) will continue to be processed in a timely basis. The District will notify SAO of all known or suspected losses.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable Laws and Regulations**

Revised Code of Washington (RCW) section 43.09.185 states, in its entirety:

State agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity.

Revised Code of Washington (RCW) section 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

*Accounting Manual for Public School Districts*, Chapter 3, Section 1, states:

Loss of Public Funds Known or suspected loss of public funds or other illegal activity must be immediately reported to the State Auditor's office (RCW 43.09.185.) Districts should contact their local audit manager.

# Schedule of Audit Findings and Responses

## Seattle School District No. 1 King County June 21, 2010

5. **The School Board and District management have not implemented sufficient policies and controls to ensure the District complies with state laws, its own policies, or addresses concerns identified in prior audits.**

### Background

Seattle Public Schools serves more than 45,000 students and operates 12 high schools, nine middle schools, 51 elementary schools, 10 kindergarten through eighth grade schools and six alternative schools and special programs. The District had operating budgets of \$556 million for the 2008-2009 school year.

An elected, seven-member School Board, ultimately is responsible for establishing policies on day-to-day District operations. Effective policies that are followed and enforced ensure the District complies with state law and safeguards public resources. In addition, Board members appoint and evaluate the performance of the Superintendent. The Board also is responsible for ensuring District staff carry out programs in compliance with Board policy and state and federal laws and regulations and for making sound financial decisions that are in the best interest of the public.

The District's Superintendent and management are responsible for carrying out the Board's policy decisions and for managing day-to-day District operations. They are to establish and maintain an effective internal control system to ensure the District meets appropriate goals and objectives, safeguards public assets, follows laws and regulations and reports reliable financial information.

### Description of Condition

In all of the areas we examined, we found lax or non-existent controls in District operations. In each area noted below, issues were significant enough to report as findings:

### Apportionment

The Office of Superintendent of Public Instruction (OSPI) establishes the rules and provides instructions on how school districts should report teacher education and experience, also known as staff mix, and enrollment for state funding. In the 2009 school year, the District received approximately \$201.2 million in combined state enrollment and staff mix funding. Staff mix reporting errors have been identified in the last three audits. Enrollment reporting errors were noted in 2006-2007.

## **Staff Mix**

Funding based on staff mix is calculated by combining the years of experience of the District's certificated staff with their academic credits. The staff mix factor determines employees' placement on the State Legislative Evaluation and Accountability Program (LEAP) Schedule.

The District continues to incorrectly report teacher education and experience, which may affect funding it receives from the state. We followed up on errors in calculations for 13 career and technical education instructors we found during the 2008 audit.

For seven of the 13 instructors, the errors continued to affect placement on the LEAP Schedule, which drive staff mix apportionment funding in 2009.

We determined the District did not make corrections we identified in the 2008 audit. We also identified changes to staff education and/or experience that could not be explained or supported by the District. This increases the risk that additional staff files may be reported incorrectly resulting in the District receiving an inappropriate amount of funding.

We are unable to identify the amount the District was over/underfunded until these errors are processed by OSPI. The errors are reported by our Office on an Audit Memorandum after the accountability report is issued.

## **Basic Enrollment Reporting**

The District's enrollment reporting system tracks student full-time equivalents (full- and part-time students) based on whole hours, rather than actual class time and passing. Both errors caused the District to incorrectly report the number of students at least three schools.

We judgmentally selected and reviewed 12th-grade enrollment reporting at Ballard, Chief Sealth and Franklin high schools for September 2008. The District reports students at the schools based on six periods daily. After reviewing student schedules, we identified classes before and after school that were not included in student calculations. We also noted non-instructional activities calculated as class time rather than passing time, incorrectly increasing student numbers.

The District's enrollment reporting system does not allow for enrollment reporting based on actual minutes of instruction each week. The District rounds total minutes each week, by student, to whole hours. This causes the District to over- and under-report enrollment.

## **Open Public Meetings Act**

During our review of the Board's meeting calendar, we noted it entered into 12 executive sessions that were not properly documented in minutes of the regular meeting. Minutes for all 12 regular meetings did not indicate the Board announced the purpose of the executive session prior to it beginning and the expected duration of the executive session. The Board calendar stated the executive sessions were held to review the performance of a public employee or to discuss potential litigation.

We also noted two other instances in which meeting minutes were not sufficiently detailed to show compliance with the Open Public Meetings Act:

1. The minutes of the September 2, 2009, meeting state the Board recessed into executive session. They do not show whether the Board publicly announced the time when the executive session would conclude.
2. The minutes of the February 11, 2009, meeting state the Board recessed into executive session to consider "litigation". While litigation is a valid purpose for an executive session, the minutes do not document whether legal counsel attended the executive session, as required by state law.

In the 2008 audit, we noted audit issues involving failure to retain meeting minutes and properly documenting the purpose of each executive session in minutes of the regular meeting. As evidenced by this year's audit, the District did not develop policies and procedures to adequately address prior audit recommendations.

### **Personal Service Contracts**

District policies and procedures require District staff to approve personal services contracts before work begins and/or payments are made. During our audit, we noted:

- The District paid for eight personal services contracts with special education money. Six of these vendors provided services for at least one month before District staff approved their contracts. The total paid to these contractors was \$1,172,328. The District paid \$13,020 of this before the contracts were approved.
- For two contracts paid with federal Indian education grant money, services were performed from one to three months before District staff approved the contracts. No payments were made prior to approval. The total paid to these contractors was \$14,603.
- For four personal services contracts paid with federal Head Start money, vendors provided services to the District for at least one month before District staff approved the contracts. No payments were made prior to contract approval. The total paid to these contractors was \$186,082.
- For six personal services contracts paid with federal Title I (low-income student assistance) money, three vendors provided services for 24-80 days before District staff approved the contracts. The District paid \$13,486 for services before the contracts were approved. The total paid to these contractors was \$175,998.

This issue was brought to the District's attention in last year's audit. It has not been resolved.

### **Asset Tracking**

In fiscal year 2009, Seattle School District had inventory valued at approximately \$56.7 million, consisting primarily of communications equipment, laptops and personal computers.

District policies and procedures require all equipment with a purchase price of more than \$5,000 to be included in the inventory tracking system. Items at a high risk of misappropriation or loss, such as laptop computers and camcorders, must be inventoried even if their purchase price is below \$5,000.

We reviewed the District's inventory process, including the completion of a physical inventory, data entry and the accuracy of the asset list. We noted:

- Of the 120 assets we judgmentally selected for review, we were unable to locate 28, including printers, laptops and desktop computers.
- The asset tracking database does not require individual user identifications and passwords and does not produce reports supervisors can review to determine who is responsible for changing the asset list, including making deletions.
- Employees do not always notify the fixed asset supervisor when an asset is moved from one location to another or been disposed of due to breakage.
- Employees do not always follow the Surplus Asset Policy. They do not secure surplus assets awaiting pickup, do not maintain adequate supporting documentation and do not review to ensure approval for surplus has been given.
- The District does not ensure all federally purchased assets, with the exception of Title I and Head Start, are inventoried at least every two years in accordance with federal requirements.

In the 2008 audit, we recommended to the District's Board and management that internal controls over assets be strengthened. This issue remains unresolved and assets continue to be unaccounted for.

### **Credit Cards**

During the 2009 school year, District employees made \$150,000 in purchases using procurement cards. Approximately 28 employees have procurement cards. We reviewed procurement card activity for potential misuse of public funds and selected 15 high-risk transactions totaling \$12,301. We found:

- **Late payment fees.** The District paid \$1,685 in procurement card late fees in school year 2008-2009. We examined four of the largest fees totaling \$815 and could not determine which cards they were applied to. Without this information, we could not determine the cause for the late fees. The District does not obtain charge statement detail by card and cardholder in order to determine the reason for late fees. The District did not pay procurement card bills on time to avoid these fees. We also noted the late fees were recorded in accounting records as "other supplies". The District does not have an account to track penalties and fees.
- **Individual credit card receipts were not retained.** The District could not provide receipts for three credit card transactions totaling \$5,172. District policy requires card users to turn these in weekly with charge logs so transactions can be reconciled.

- **Inappropriate use of cards.** The District's procurement card manual lists what can be purchased with the cards. We found District personnel used procurement cards to pay for hotel costs and food, totaling \$5,102, which is not allowed. Of that, \$3,802 was for food and servers at a retirement banquet. The District does not have policies on providing food and beverages to employees outside travel status or on awards ceremonies and banquets.

The hotel stay, which cost \$1,300, should have been processed through the District's travel expense system.

- **Memorandum of Understanding (MOU)** Cardholders must sign a MOU when they receive a procurement card. The procurement card charges we examined involved cards for nine employees. Only five had signed MOUs on file. We also noted that in some instances, the cards are assigned to departments, rather than to individuals. As a result, the use reports are unclear as to who is responsible for department cards.

We also noted the Superintendent signed a procurement card MOU that included hand-written provisions for uses not authorized in the procurement card manual. The Board was unaware of this action. Procurement card policies do not allow modifications to the MOUs.

- **Non-compliance with dollar limits.** District personnel may charge up to \$1,000 per procurement card transaction and make up to five transactions each day. Five transactions we examined were over the \$1,000 limit. These transactions range from \$1,300 to \$2,800.

In our 2005 and 2006 audit, we communicated weaknesses in procurement card controls to District management and emphasized the need to monitor credit card charges to prevent noncompliance with District policy.

## Fuel Cards

The District purchased approximately \$250,000 in fuel during the 2008-2009 school year. We examined fuel card purchases and noted control deficiencies in the District's ability to detect and prevent misuse of fuel cards. We also determined employees were not complying with the District's fuel card policies and procedures. Specifically:

- Supervisors are not monitoring fuel card purchases for reasonableness.
- Employees are not accurately entering the vehicle's mileage at the time of fill up. At time of fill up, employees entered "0" for vehicle's odometer reading. District policy requires employees to accurately record the vehicle's odometer reading every time they refuel.
- We noted many instances in which miles driven between fill ups were significantly low (one mile, 20 miles, 30 miles, etc.). This is taking place because employees are entering the wrong odometer reading or misusing fuels cards.
- District staff stated employees share PIN numbers. District policy states employees are not to share these numbers.



From October 1, 2008, through November 30, 2008, 23 percent of fuel card purchases occurred between 1 a.m. and 4:00 a.m. The payroll department confirmed the employees who made these early morning purchases were not working at the time of the fuel purchase. The District was unaware of these purchases. The District plans to conduct a review of these purchases, since controls were bypassed on a large scale and supervisors are not effectively monitoring the program, we cannot determine if employees misused their fuel cards.

## **Rental Revenue**

District personnel are responsible for safeguarding public resources by making deposits in a timely manner and in the correct fund. State law (RCW 43.09.240) and the *Accounting Manual for School Districts* require districts to make deposits within 24 hours after collection. The District collected \$1,364,484 in rental revenue during 2009. We found District procedures regarding stadium and building rental revenue were inadequate. We noted:

- The Events Coordinator keeps checks in an unsecured folder on her desk until they are sent to the cashier for deposit. We found checks had been held for more than a week.
- The Athletics Coordinator at Memorial Stadium created an unauthorized working/petty cash fund using a \$325 rent payment on November 21, 2008. No one in the Finance Office or Cash Receiving knew that the money had been used in this way. It was finally deposited in November 2009.
- The Athletics Coordinator does not restrictively endorse the checks before sending them via interoffice mail, and does not follow up to ensure they arrived intact.
- Stadium rental funds are sent through unsecured interoffice mail to the cashier.
- Neither the Activities Coordinator nor the Director of Athletics for the Stadium is monitoring to ensure deposits occur.

## **Records Retention**

Staff at Nathan Hale could not locate building rental records for the 2008-2009 school year. Staff members stated they believed the records were lost or misplaced when students, teachers and staff relocated to another building. They also stated the school's event calendar, which can be used to support official District rental records, is discarded at the end of each month because they believed it no longer was needed.

Rainier Beach did not maintain any Associated Student Body (ASB) records for the 2008-2009 school year. Staff members stated the former ASB Activities Coordinator retired and they were not able to locate any records that she may have kept. The Information Technology Department could not find any ASB records in the secretary's computer. In addition, the ASB Fiscal Manager stated she had not kept any program documentation from that year. Records retention laws require the school to keep this information.

The records retention issue was brought to the District's attention in last year's audit and remains unresolved.

## **Initiative 728 Funds**

Initiative 728 funds are used for education reform and improving student learning.

We also reviewed the District's report on the use of I-728 funds for 2008-2009. We noted the report did not include required information on children who need pre-kindergarten support.

State law (RCW 28A.505.210) requires district boards on or before May 1 to have a public hearing on proposed uses of these funds. The District did not retain minutes of this hearing.

In our 2005 and 2008 audit, we determined the District did not comply with the requirements for this funding. These issues have not been resolved.

## **Cause of Condition**

The District Superintendent and executive management have not familiarized themselves with state law and District policy regarding school operations. Additionally, the Board does not provide oversight to ensure laws and policies are followed.

The Board has adopted generic policies and delegated all of its authority to the Superintendent to create specific procedures to govern day-to-day District operations. However, the Board does not evaluate these procedures to determine if they are effective or appropriate for the District.

Further, although we have communicated internal controls weaknesses in prior audits in the areas noted above, the District has not addressed them.

## **Effect of Condition**

The District's Board and Management have placed public resources at risk. We noted several instances in which public assets were misappropriated or susceptible to misappropriation due to lack of effective policies, management's failure to enforce existing policies and/or inadequately trained staff. The District exposes itself to greater risk of loss of federal and state funds and increases the risk for non-compliance with laws and regulations.

## **Recommendation**

### **Overarching Recommendation**

We recommend the Board and Management familiarize themselves with and follow state laws and regulations. We also recommend the District establish effective internal controls to ensure the District is operating in accordance with the law and in a manner that safeguards public resources. The Board and Management should be more involved in District operations.

## **Apportionment**

### **Staff Mix Reporting**

We recommend the District review the accuracy of experience and credits reported for career and technical education instructors and placement on the LEAP Schedule. Additionally, it should retain documentation that supports changes to staff reporting.

### **Basic Enrollment Reporting**

We recommend the District review building schedules to ensure it accurately reports enrollment. The District should document all classes, including those held before and after the normal school day, on its schedule. When calculating enrollment, the District should not round to the nearest whole hour within its enrollment reporting system.

## **Open Public Meetings Act**

We recommend the District document executive sessions in its minutes in order to demonstrate compliance with state law.

## **Personal Service Contracts**

We recommend the District comply with its policies and procedures for personal services contracts.

## **Asset Tracking**

We recommend the District:

- Ensure employees comply with fixed asset policies and procedures to protect District assets from loss or misappropriation.
- Establish and follow internal controls to ensure only approved changes are made in the asset database, adequate surplus documentation is maintained and federally purchased assets are inventoried a minimum of every two years.

## **Credit Cards**

We recommend:

- The District ensures staff follows the procurement card manual.
- The Board adopts policies on whether the District will provide food and beverages to employees outside of travel status.
- Employees submit original, detailed procurement card receipts to Accounting.
- Employees adhere to procurement card procedures regarding dollar limits on procurement card transactions.

- MOUs are properly authorized with terms consistent with procurement card manual rules. If the District intends to include exceptions to the rules, it should revise the manual.
- The District addresses weaknesses to eliminate late payment penalties.

### **Fuel cards**

We recommend the District ensure controls are in place to detect and prevent misuse of gasoline cards.

We also recommend the District follow up on these transactions and determine the cause of the fuel purchase discrepancies and take action to rectify those discrepancies.

### **Rental revenues**

We recommend the District put processes and procedures in place to ensure building rental revenues are deposited in a timely manner and are adequately monitored.

### **Records Retention**

We are repeating a recommendation made in 2009 that the District provide new employees with records retention information and send out record retention reminders to employees annually.

### **Initiative 728 Funds**

We recommend the District:

- Complete the annual report for the use of I-728 funds in accordance with state law and OSPI requirements.
- Take and retain minutes of all special meetings.

### **District's Response**

*The District concurs with the State Auditors finding as noted. The District will continue to identify internal control improvements and take timely steps to implement them. On specific instances cited by the State Auditor's Office, the District has the following comments:*

*Open Public Meetings Act – Issues were raised about compliance with provisions of this act during the 2008 audit. Procedures to fully respond to these issues were developed and implemented in fall of 2009.*

*Personal Service Contracts – The District concurs with the overall finding regarding services provided before final contract approval. In fall of 2009, the District provided guidance to all managers around compliance with contracting procedures. The District will continue to emphasize the importance of compliance with contracting requirements and will implement a specific set of consequences for non-compliance.*

*Credit Cards – The following changes have been implemented since the period being audited. Procurement card payment process was changed so late-payment fees were*

*eliminated. New procurement cards have been issued and MOUs are on file for all users. The District will continue to improve procedures around credit card usage and compliance. Regarding the non-compliance with dollar limits, there is an exception process in place where the user may call the card administrator and request a higher limit.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable Laws and Regulations**

*Accounting Manual for Public Schools District in Washington State* states in part:

### Basic Internal Control Requirements

Each school board is responsible for establishing and maintaining an effective system of internal control throughout the school district.

An internal control system should provide *reasonable assurance* that a school district will accomplish its educational objectives. The concept of reasonable assurance recognizes that the cost of an internal control activity should not exceed the benefit derived from it. Reasonable assurance equates to a satisfactory level of confidence given considerations of costs, benefits, and risks.

School district management should identify and analyze the risks in achieving educational objectives and determine how to most effectively and efficiently manage those risks. Management defines the level of risk that the school district is willing to accept and strives to maintain risks within those levels.

Each school district should adopt methods to assess risk and review control activities. The methods developed should address each school district's specific needs.

### Components of Internal Controls

The five components of good internal controls within a management control system are:

1. **Control Environment**—The control environment sets the tone of a school district. Providing discipline and structure, it is the foundation for all other components of internal control. Control environment factors include the integrity, ethical values, and competence of the school district's staff; management's philosophy and operating style; the way management assigns authority and responsibility; the way management organizes and develops its staff; and the attention and direction provided by the board.

2. **Risk Assessment**—Every school district faces a variety of risks from external and internal sources, all of which must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of obstacles to achieving the objectives, and it forms a basis for determining how risks should be managed.

3. **Control Activities**—Control activities are the internal policies and procedures that help ensure management directives are carried out. They help ensure necessary actions are taken to address risks to achieving the school district's objectives. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets, and segregation of duties.

4. **Information and Communication**—Pertinent information must be identified, captured, and communicated in a form and time frame that enables people to carry out their responsibilities. Information systems produce reports containing operational, financial, and compliance related information, making it possible to efficiently manage the school district . . . .

WAC 392-121-280, Placement on LEAP salary allocation documents, states:

Documentation required.

School districts shall have documentation on file and available for review which substantiates each certificated instructional employee's placement on LEAP salary allocation documents. The minimum requirements are as follows:

(1) Districts shall document the date of awarding or conferring of the highest degree including the date upon which the degree was awarded or conferred as recorded on the diploma or transcript from the registrar of the regionally accredited institution of higher education.

(a) If the highest degree is a master's degree, the district shall also document the date of awarding or conferring of the first bachelor's degree.

(b) If the degree was awarded by an institution which does not confer degrees after each term, and all degree requirements were completed at a time other than the date recorded on the diploma or transcript, a written statement from the registrar of the institution verifying a prior completion date shall be adequate documentation.

(c) If the degree program was completed in a country other than the United States documentation must include a written statement of degree equivalency for the appropriate degree from a foreign credentials' evaluation agency approved by the office of superintendent of public instruction.

(2) Districts shall document academic credits by having on file a transcript from the registrar of the regionally accredited institution of higher education granting the credits. For purposes of this subsection:

(a) An academic credit is deemed "earned" at the end of the term for which it appears on the transcript: Provided, That a written statement from the registrar of the institution verifying a prior earned date may establish the date a credit was earned;

(b) Washington state community college credits numbered one hundred and above are deemed transferable for purposes of WAC 392-121-255(4) subject to the limitations of that same subsection;

(c) Credits are not deemed "earned" at an institution of higher education which transfers-in credits. Such credits must be documented using a transcript from the initial granting institution and are subject to all the limitations of WAC 392-121-255;

(d) If the credits were completed in a country other than the United States, documentation must include a written statement of credit equivalency for the appropriate credits from a foreign credentials' evaluation agency approved by the office of superintendent of public instruction; and

(e) For credits earned after September 1, 1995, districts shall document that the course content meets one or more of the criteria of WAC 392-121-262(1). At a minimum, such documentation must include a dated signature of the immediate principal, supervisor, or other authorized school district representative and must be available to the employee's future employers.

(3) Districts shall document in-service credits;

(a) By having on file a document meeting standards established in WAC 181-85-107; and

(b) For credits earned after September 1, 1995, districts shall document that the course content meets one or more of the criteria of WAC 392-121-262(1). At a minimum, such documentation must include a dated signature of the immediate principal, supervisor, or other authorized school

district representative and must be available to the employee's future employers.

(4) Districts shall document nondegree credits.

(a) For vocational/career and technical education educator training credits pursuant to WAC 392-121-259(3) districts shall have on file a document meeting standards established in WAC 181-85-107 and evidence that the training was authorized pursuant to WAC 181-77-003 (2), (9), or (12).

(b) For credits calculated from converted occupational experience pursuant to WAC 392-121-259(3) districts shall have on file documents which provide:

- (i) Evidence that the occupational experience meets the requirements of WAC 181-77-003(7);
- (ii) Evidence of the individual's actual number of hours of employment for each year including dates of employment; and
- (iii) The district calculation of converted credits pursuant to WAC 392-121-259(3).

(c) For credits earned after September 1, 1995, districts shall document that the course content meets one or more of the criteria of WAC 392-121-262(1). At a minimum, such documentation must include a dated signature of the immediate principal, supervisor, or other authorized school district representative and must be available to the employee's future employers.

(5) Districts shall document certificated years of experience as follows:

(a) For certificated years of experience obtained and reported on Report S-275 prior to the 1994-95 school year districts shall have on file documents that provide evidence of employment including dates of employment.

(b) For certificated years of experience reported on Report S-275 for the first time after the 1993-94 school year districts shall have on file:

- (i) The total number of hours, or other unit of measure, per year for an employee working full-time with each employer;
- (ii) The number of hours, or other unit of measure (worked by the employee), per year and dates of employment with each employer, including paid leave and excluding unpaid leave: Provided, That documentation of hours in excess of one full-time



certificated year of experience in any twelve-month period is not required;

(iii) The quotient of the hours, or other unit of measure, determined in (b)(ii) of this subsection divided by the hours, or other unit of measure, in (b)(i) of this subsection rounded to two decimal places for each year;

(iv) The name and address of the employer;

(v) For those counting out-of-district experience pursuant to WAC 392-121-264 (1)(a), evidence whether or not the position required professional education certification pursuant to WAC 392-121-264 (1)(a)(ii);

(vi) For those counting experience pursuant to WAC 392-121-264 (1)(b), a brief description of the previous employment which documents the school district's decision that the position was comparable to one requiring certification in the Washington school districts;

(vii) For those counting management experience pursuant to WAC 392-121-264 (1)(e), evidence that the experience meets the requirements of WAC 181-77-003(6);

(viii) For those counting experience (for educational staff associates) pursuant to WAC 392-121-264 (1)(f), evidence that the previous employment meets the requirements in the applicable subsections of WAC 392-121-264 (1)(f).

(6) Any documentation required by this section may be original or copies of the original: Provided, That each copy is subject to school district acceptance or rejection.

(7) The falsification or deliberate misrepresentation, including omission of a material fact concerning degrees, credits, or experience by an education practitioner as defined in WAC 181-87-035 shall be deemed an act of unprofessional conduct pursuant to WAC 181-87-050. In such an event the provisions of chapters 181-86 and 181-87 WAC shall apply.

WAC 392-121-122, Definition -- Full-time equivalent student, states:

As used in this chapter, "full-time equivalent student" means each enrolled student in the school district as of one of the enrollment count dates for at least the minimum number of hours set forth in subsection (1) of this section, inclusive of class periods and normal class change passing time, but exclusive of noon intermissions: Provided, That each hour counted shall contain at least 50 minutes

of instruction or supervised study provided by appropriate instructional staff. The purpose of recognizing "50 minute hours" is to provide flexibility to school districts which utilize block periods of instruction so long as students are ultimately under the jurisdiction of school staff for the equivalent of 60 minute hours: Provided further, That the hours set forth below shall be construed as annual average hours for the purposes of compliance with this chapter.

- (1) The minimum hours for each grade are as follows:
  - (a) Kindergarten: 20 hours each week, or 4 hours (240 minutes) for each scheduled school day;
  - (b) Primary (grades 1 through 3): 20 hours each week, or 4 hours (240 minutes) each scheduled school day;
  - (c) Elementary (grades 4 through 6): 25 hours each week, or 5 hours (300 minutes) each scheduled school day;
  - (d) Secondary (grades 7 through 12): 25 hours each week, or 5 hours (300 minutes) each scheduled school day.
- (2) Except as limited by WAC 392-121-136, a student enrolled for less than the minimum hours shown in subsection (1) of this section shall be counted as a partial full-time equivalent student equal to the student's hours of enrollment divided by the minimum hours for the student's grade level set forth in subsection (1) of this section.
- (3) The full-time equivalent of a student's running start enrollment pursuant to RCW 28A.600.300 through 28A.600.400 shall be determined pursuant to chapter 392-169 WAC. If a running start student is enrolled both in high school courses provided by the school district and in running start courses provided by the college, the high school full-time equivalent and the running start full-time equivalent shall be determined separately.
- (4) The full-time equivalent of University of Washington transition school students shall be determined pursuant to chapter 392-120 WAC.
- (5) The full-time equivalent of a student's alternative learning experience shall be determined pursuant to WAC 392-121-182.

RCW 43.09.240, Local government accounting — Public officers and employees — Duty to account and report — Removal from office — Deposit of collections, states:

Every public officer and employee of a local government shall keep all accounts of his or her office in the form prescribed and make all reports required by the state auditor. Any public officer or employee who refuses or willfully neglects to perform such duties shall be subject to removal from office in an appropriate proceeding for that purpose brought by the attorney general or by any prosecuting attorney.

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible as long as the treasurer has received a written request from the department, district, or agency, and where the department, district, or agency certifies that the money is held with proper safekeeping and that the entity carries out proper theft protection to reduce risk of loss of funds. Exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

In case a public officer or employee collects or receives funds for the account of a local government of which he or she is an officer or employee, the treasurer shall, by Friday of each week, pay to the proper officer of the local government for the account of which the collection was made or payment received, the full amount collected or received during the current week for the account of the district.

RCW 28A.505.210, Student achievement funds — Use and accounting of funds —  
Public hearing — Report, states:

School districts shall have the authority to decide the best use of funds distributed for the student achievement program under RCW 28A.505.220 to assist students in meeting and exceeding the new, higher academic standards in each district consistent with the provisions of chapter 3, Laws of 2001.

(1) Funds shall be allocated for the following uses:

(a) To reduce class size by hiring certificated elementary classroom teachers in grades K-4 and paying nonemployee-related costs associated with those new teachers;

(b) To make selected reductions in class size in grades 5-12, such as small high school writing classes;

(c) To provide extended learning opportunities to improve student academic achievement in grades K-12, including, but not limited to, extended school year, extended school day, before-and-after-school programs, special tutoring programs, weekend school programs, summer school, and all-day kindergarten;

(d) To provide additional professional development for educators, including additional paid time for curriculum and lesson redesign and alignment, training to ensure that instruction is aligned with state standards and student needs, reimbursement for higher education costs related to enhancing teaching skills and knowledge, and mentoring programs to match teachers with skilled, master teachers. The funding shall not be used for salary increases or additional compensation for existing teaching duties, but may be used for extended year and extended day teaching contracts;

(e) To provide early assistance for children who need prekindergarten support in order to be successful in school;

(f) To provide improvements or additions to school building facilities which are directly related to the class size reductions and extended learning opportunities under (a) through (c) of this subsection.

(2) Annually on or before May 1st, the school district board of directors shall meet at the time and place designated for the purpose of a public hearing on the proposed use of these funds to improve student achievement for the coming year. Any person may appear or by written submission have the opportunity to comment on the proposed plan for the use of these funds. No later

than August 31st, as a part of the process under RCW 28A.505.060, each school district shall adopt a plan for the use of these funds for the upcoming school year. Annually, each school district shall provide to the citizens of their district a public accounting of the funds made available to the district during the previous school year under chapter 3, Laws of 2001, how the funds were used, and the progress the district has made in increasing student achievement, as measured by required state assessments and other assessments deemed appropriate by the district. Copies of this report shall be provided to the superintendent of public instruction.

RCW 40.14.070, Destruction, disposition, donation of local government records — Preservation for historical interest — Local records committee, duties — Record retention schedules — Sealed records, states:

(1)(a) County, municipal, and other local government agencies may request authority to destroy noncurrent public records having no further administrative or legal value by submitting to the division of archives and records management lists of such records on forms prepared by the division. The archivist, a representative appointed by the state auditor, and a representative appointed by the attorney general shall constitute a committee, known as the local records committee, which shall review such lists and which may veto the destruction of any or all items contained therein.

(b) A local government agency, as an alternative to submitting lists, may elect to establish a records control program based on recurring disposition schedules recommended by the agency to the local records committee. The schedules are to be submitted on forms provided by the division of archives and records management to the local records committee, which may veto, approve, or amend the schedule. Approval of such schedule or amended schedule shall be by unanimous vote of the local records committee. Upon such approval, the schedule shall constitute authority for the local government agency to destroy the records listed thereon, after the required retention period, on a recurring basis until the schedule is either amended or revised by the committee.

(2)(a) Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee. Official public records shall not be destroyed unless:

(i) The records are six or more years old;

(ii) The department of origin of the records has made a satisfactory showing to the state records committee that the retention of the records for a minimum of six years is both unnecessary and uneconomical, particularly where lesser federal retention periods for records generated by the state under federal programs have been established; or

(iii) The originals of official public records less than six years old have been copied or reproduced by any photographic,

photostatic, microfilm, miniature photographic, or other process approved by the state archivist which accurately reproduces or forms a durable medium for so reproducing the original.

An automatic reduction of retention periods from seven to six years for official public records on record retention schedules existing on June 10, 1982, shall not be made, but the same shall be reviewed individually by the local records committee for approval or disapproval of the change to a retention period of six years.

The state archivist may furnish appropriate information, suggestions, and guidelines to local government agencies for their assistance in the preparation of lists and schedules or any other matter relating to the retention, preservation, or destruction of records under this chapter. The local records committee may adopt appropriate regulations establishing procedures to be followed in such matters.

Records of county, municipal, or other local government agencies, designated by the archivist as of primarily historical interest, may be transferred to a recognized depository agency.

(b)(i) Records of investigative reports prepared by any state, county, municipal, or other law enforcement agency pertaining to sex offenders contained in chapter 9A.44 RCW or sexually violent offenses as defined in RCW 71.09.020 that are not required in the current operation of the law enforcement agency or for pending judicial proceedings shall, following the expiration of the applicable schedule of the law enforcement agency's retention of the records, be transferred to the Washington association of sheriffs and police chiefs for permanent electronic retention and retrieval. Upon electronic retention of any document, the association shall be permitted to destroy the paper copy of the document.

(ii) Any sealed record transferred to the Washington association of sheriffs and police chiefs for permanent electronic retention and retrieval, including records sealed after transfer, shall be electronically retained in such a way that the record is clearly marked as sealed.

(iii) The Washington association of sheriffs and police chiefs shall be permitted to destroy both the paper copy and electronic record of any offender verified as deceased.

(c) Any record transferred to the Washington association of sheriffs and police chiefs pursuant to (b) of this subsection shall be deemed to no longer constitute a public record pursuant to RCW 42.17.020 and shall be exempt from public disclosure. Such records shall be disseminated only to criminal justice agencies as defined in RCW 10.97.030 for the purpose of determining if a sex offender met the criteria of a sexually violent predator as defined in chapter 71.09 RCW and the end-of-sentence review committee as defined by RCW 72.09.345 for the purpose of fulfilling its duties under RCW 71.09.025 and 9.95.420.

Electronic records marked as sealed shall only be accessible by criminal justice agencies as defined in RCW 10.97.030 who would otherwise have access to a

sealed paper copy of the document, the end-of-sentence review committee as defined by RCW 72.09.345 for the purpose of fulfilling its duties under RCW 71.09.025 and 9.95.420, and the system administrator for the purposes of system administration and maintenance.

(2) Except as otherwise provided by law, county, municipal, and other local government agencies may, as an alternative to destroying noncurrent public records having no further administrative or legal value, donate the public records to the state library, local library, historical society, genealogical society, or similar society or organization.

Public records may not be donated under this subsection unless:

- (a) The records are seventy years old or more;
- (b) The local records committee has approved the destruction of the public records; and
- (c) The state archivist has determined that the public records have no historic interest.

# Status of Prior Audit Findings

## Seattle School District No. 1 King County June 21, 2010

The status of findings contained in the prior years' audit reports of Seattle School District No. 1 is provided below:

1. **The Seattle School District did not report all known or suspected losses of public funds or assets to the State Auditor's Office as required by law.**

Report No. 1001793, dated July 1, 2009

### **Background**

State law (RCW 43.09.185) says "state agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity". The law does not set a dollar threshold for reporting. Four times in the last five years, our Office has included in written findings a reminder to the District to comply with this reporting requirement. During our current audit, we again noted the District is not complying with this requirement.

### **Status**

The finding is repeated in the current audit report.

2. **The District is incorrectly reporting teacher education and experience (staff mix)**

Report No. 1001793, dated July 1, 2009

### **Background**

Washington public school districts receive money based in part on the education and number of years of experience of their certificated instructional staff, known as staff mix, a factor that combines the years of experience of the District's certificated staff with their academic credits. The staff mix factor determines employees' placement on the State Legislative Evaluation and Accountability Program (LEAP) schedule. This number is reported to the Office of Superintendent of Public Instruction.

In the 2007-2008 school year, the District received approximately \$210.6 million in combined state enrollment and staff mix funding.

The District reported 23 instructors without college degrees in the 2007-08 school year. We identified errors in 11 of the 13 files we examined. Four of the errors affected the instructor's LEAP placement, which may affect the amount of funding the District receives for staff mix.

### **Status**

The finding is repeated in the current audit report.





## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Jim Brittain, CPA**  
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