

Washington State Auditor's Office
Accountability Audit Report

Edmonds School District No. 15
Snohomish County

Report Date
March 19, 2007

Report No. 72789

Issued **June 15, 2007**
Reissued **July 20, 2007**



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

July 20, 2007

Board of Directors
Edmonds School District No. 15
Lynnwood, Washington

Report on Accountability for Public Resources

Please find attached our report on Edmonds School District No. 15's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

In addition to this work, we also audit the District's financial statements and compliance with federal laws and regulations. The results of that audit will be included in a separately issued audit report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Snohomish County
March 19, 2007

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Audit Summary

Edmonds School District No. 15 Snohomish County March 16, 2007

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Edmonds School District No. 15.

We performed audit procedures to determine whether the District complied with state laws and regulations and its own policies and procedures. We also examined District management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from September 1, 2005, through August 31, 2006.

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures. However, we identified one condition significant enough to report as a finding:

- The District's internal controls over cash-receipting at the high school administrative office, cash-receipting and inventory at the high school student store and preparation of deposits sent from the District Office are inadequate.

We also noted certain issues that we communicated to District's management.

RELATED REPORTS

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

CLOSING REMARKS

We thank District officials and personnel for their assistance and cooperation during the audit.

Description of the District

Edmonds School District No. 15 Snohomish County March 19, 2007

ABOUT THE DISTRICT

Edmonds School District No. 15 provides public school services to students in preschool through grade 12. The District is the 10th largest school district in the state and the largest in Snohomish County. The District's service area of 36 square miles includes the cities of Lynnwood, Woodway, Brier, Edmonds, Mountlake Terrace and the surrounding unincorporated area of Snohomish County. The District serves approximately 20,500 students with a staff of approximately 1,300 certificated and 780 classified employees. The District has 24 elementary schools, four of which include 7th and 8th grades. The District has one early childhood center, four middle schools, four high schools, one alternative K-12 school, one alternative high school and one K-12 center for students with disabilities.

The District's budgeted expenditures for fiscal year 2005-06 were General Fund \$164,920,387, ASB Fund \$3,171,646, Debt Service Fund \$16,010,026, Capital Projects Fund \$25,727,500 and Transportation and Vehicle Fund \$1,050,000. A five-member Board of Directors, elected to four-year terms by the District's voters, governs the District's operations.

AUDIT HISTORY

We audit the District annually. The past five audits have reported eight findings. During that period, the number of findings has ranged from two in 2002-03 and three in 2001-02 and 2003-04. No findings were reported in fiscal years 2000-01 and 2004-05.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Directors:

Dr. Bruce Williams
Patrick Shields
Susan Paine
Ann McMurray
Gary Noble

APPOINTED OFFICIALS

Superintendent

Dr. Nick Brossoit

ADDRESS

District

20420 68th Avenue W.
Lynnwood, WA 98036
(425) 431-7000
<http://www.edmonds.wednet.edu/>

Audit Areas Examined

Edmonds School District No. 15 Snohomish County March 19, 2007

In keeping with general auditing practices, we do not examine every portion of Edmonds School District No. 15's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the District were examined during this audit period:

ACCOUNTABILITY FOR PUBLIC RESOURCES

We evaluated the District's accountability in the following areas:

- Cash receipting
- Payroll
- Budget compliance

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Open Public Meetings Act
- Long-term debt covenant compliance
- Property sale/leasing of surplus property
- General disbursements
- Special education
- Competitive bid law compliance
- Contracts and agreements
- Student enrollment reporting
- Student transportation ridership reporting

FEDERAL PROGRAMS

We evaluated internal controls and tested compliance with 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.

FINANCIAL AREAS

Our opinion on the District's financial statements is provided in a separate report. That report includes the District's financial statements and other required financial information. We examined the financial activity and balances of the District including:

- Cash and investments
- Revenues
- Expenditures
- Assets
- Liabilities
- Subsequent events
- Long-term debt
- Receivables
- Overall presentation of the financial statements
- Other financing sources

Schedule of Audit Findings

Edmonds School District No. 15 Snohomish County September 1, 2005 through August 31, 2006

- 1. Edmonds School District No. 15's internal controls over cash-receipting at the high school administrative office, cash-receipting and inventory at the high school student store and preparation of deposits sent from the District Office are inadequate.**

Description of Condition

Meadowdale High School

The Meadowdale High School administrative office collects money from athletic fees, fines, field trip fees and donations, among other sources. The High School collected \$73,759 from these sources in fiscal year 2006. In the prior audit, we reported internal control weaknesses in cash receipting practices.

During the current audit we found:

- Deposits are not being made in a timely manner and according to District policy.
- Money collected is not reconciled daily.
- Access to the safe combination is not sufficiently limited.
- Checks are not restrictively endorsed when received.
- Deposits are not reviewed by another person prior to being sent to the District office.
- The individual who receives the cash and prepares the deposit also reconciles the deposit to the Revenue Recap Report.

Mountlake Terrace High School

The Mountlake Terrace High School student store is an Associated Student Body activity. During fiscal years 2004, 2005 and 2006, the student store receipted approximately \$50,000, \$50,000, and \$30,000 in revenues, respectively. The decrease in revenue in 2006 was because the student store was not open for the first half of the year and the variance is reasonable based on the expenditures decreasing nearly the same amount that year. We reviewed the controls over the student store and noted:

- Inventory sold is not reconciled to revenues collected.
- Inventory counts are not performed regularly.
- Cash is not reconciled at the end of each lunch period.
- Cash boxes are not counted at the beginning of the day, resulting in inconsistent daily starting balances.
- Student store cash drawers are not secured when not in use.
- Sales were not recorded or receipts generated and voids were not tracked.

The cash register tills in the lunch room at Mountlake Terrace High School are not counted every morning to ensure that all funds match what was secured the night before. If cash was missing it would not be detected until the end of the day when cash is counted, making it difficult to determine when the money was taken and to fix responsibility.

District Administration Office

Cash received at each school is sent to the District Office for deposit. We noted the District Office makes adjustments to deposits without a second review before the deposit is sent to the bank.

Cause of Condition

The Meadowdale High School administrative office did not follow District policies or procedures governing cash- receipting and safeguarding of funds. The District did not have adequate internal controls over cash-receipting and inventory at the Mountlake Terrace High School student store due largely to the student store not using the available cash register. The District did not have adequate controls over cash receipting at the high school lunch room. Further, the District's internal controls over deposits made at the administrative office, as recommended in the prior audit, were inadequate.

Effect of Condition

Lack of adequate internal controls over local revenues and cash-receipting results in decreased accountability and an increased risk that misappropriation, loss or misuse may occur and not be detected in a timely manner, if at all.

Recommendation

We recommend the District establish and follow cash-receipting procedures at student stores and lunch rooms. We recommend the administrative office follow District policies. We also recommend that deposits be reviewed by an additional person at the administrative office prior to the deposit being sent to the bank. Further, we recommend the District train employees on cash-receipting policies.

District's Response

Meadowdale High School

The District's Manager of Business Operations met with administrative office staff at Meadowdale High School to discuss daily cash reconciliation requirements, money handling and security procedures, deposit preparation, segregation of duties and reconciliation of deposits made. The office manager was new at the time of the audit, and still learning cash handling procedures. The administrative office staff have been trained and are in compliance. Other sites that were visited by the auditors were in compliance with cash handling procedures. The Manager of Business Operations will send out a reminder to all schools and departments about the importance of adhering to cash handling procedures and will continue its monitoring of frequency of deposits from all schools.

Mountlake Terrace High School

Student Store

The Mountlake Terrace High School student store used manual tally sheets as a temporary internal control measure to reconcile daily sales. Cash registers are now operational, and specific procedures were provided to student store staff about counting funds at the start of the shift, segregation of duties, reconciling at the end of the lunch period, and the need to conduct periodic inventory. Student stores at all other high schools were visited; no internal control concerns were identified.

Lunch Room

District procedures do require that the change fund be verified before the start of every meal session. This site was the only site found to be out of compliance. All Central Kitchen Managers

have been reminded of this requirement. A reminder about the requirement to count change fund will also be included in the next series of meetings with food service staff in April and May 2007.

District Administration Office

The District's cashier has been providing a copy of all transmittals found to require adjustments to her supervisor on the same day they are identified. The supervisor then contacts the school staff member who made the deposit to reconcile all material differences. Reconciliation of adjustments made to Food Service deposits are done by the Food Service department staff. The district is assessing alternative models for depositing funds from the school to the bank.

Auditor's Remarks:

We want to thank the District for its response and efforts to resolve the issue. We will follow up on this issue during our next regularly scheduled audit.

Applicable Laws and Regulations:

RCW 43.09.240 Local government accounting states in part:

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.

The Accounting Manual for Public School Districts in the State of Washington, Chapter III, Section G-1, page 1 states in part:

An internal control system . . . (should) ensure that resource use is consistent with law, regulation, and policy; that resources are guarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

RCW 43.09.200 requires an accounting for all cash collections. It states in part:

The accounting system shall exhibit true accounts and detailed statements of funds collected, received, and expended . . . 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

The *School Accounting Manual*, Chapter III, Section G-1, Page 3, states in part:

Documentation: internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be purposeful and useful to the district management in controlling and/or managing operations . . .

Recording of transactions and events: Transactions and other significant events are to be promptly recorded and properly classified. Prompt recording ensures that pertinent information maintains its relevance and value to management in controlling operations and making decisions