

Washington State Auditor's Office
Accountability Audit Report

Edmonds School District No. 15
Snohomish County

Report Date
April 18, 2008

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May 27, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

May 27, 2008

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

Report on Accountability

Please find attached our report on the Edmonds School District No. 15's accountability 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
April 18, 2008

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Audit Summary

Edmonds School District No. 15 Snohomish County April 18, 2008

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, 2006, through August 31, 2007.

RESULTS

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

- The District does not have adequate internal controls over lease and rental revenue.

We also noted certain issues that we communicated to District's management. We appreciate the District's commitment to resolving the issues.

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. That report contains one finding regarding a lack of internal controls.

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 April 18, 2008

ABOUT THE DISTRICT

Edmonds School District No. 15 provides public school services to students in preschool through 12th grade. 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 and Mountlake Terrace and the surrounding unincorporated area of Snohomish County. The District serves approximately 19,700 students with a staff of approximately 1,270 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 kindergarten through 12th grade school, one alternative high school and one K-12 center for students with disabilities.

The District's budgeted expenditures for fiscal year 2006-07 were: General Fund, \$176,562,507; Associated Student Body Fund, \$2,984,189; Debt Service Fund, \$23,786,450; Capital Projects Fund, \$63,004,485 and Transportation and Vehicle Fund, \$1,550,000. A five-member Board of Directors, elected to four-year terms by District voters, governs the District's operations.

AUDIT HISTORY

We audit the District annually. The past five audits have reported nine findings. During that period, the number of findings has ranged from three in the 2001-02 and 2003-04 audits, two in the 2002-03 audit and one in the 2005-06 audit. No findings were reported in fiscal year 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

Nick J. Brossoit, Ed.D.

ADDRESS

District

20420 68th Avenue W.
Lynnwood, WA 98036-7400
(425) 431-7000
www.edmonds.wednet.edu

Audit Areas Examined

Edmonds School District No. 15 Snohomish County April 18, 2008

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

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

- Cash receipting
- Contracts/agreements
- Open public meetings/records laws
- Federal procurement
- Bid law compliance
- Budget compliance
- Constituent referrals
- Travel disbursements
- Disbursements/expenditures
- Payroll/personnel
- Enrollment reporting
- Transportation reporting
- Conflict of interest
- Promoting Academic Success program
- Lease/rental revenues

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/expenses
- Financial condition
- Long-term debt
- Overall presentation of the financial statements
- Financial statement preparation

Schedule of Audit Findings and Responses

Edmonds School District No. 15 Snohomish County September 1, 2006 through August 31, 2007

1. Edmonds School District No. 15's internal controls over lease and rental revenue are inadequate.

Background

During our previous audit of the District, we reported to District management that rental revenues were not being properly monitored. The District received \$366,251 in rental revenue during the 2006-07 fiscal year. This amount varies from year to year and is monitored at the school rather than the District level, increasing the risk of misappropriation. The District also leases space to outside organizations. The District received \$155,295 from leases during the 2006-07 fiscal year.

Description of Condition

During our audit, we found the District:

- Has not made significant changes in monitoring as we recommended during the previous audit.
- Does not have an overall policy on how lease and rental agreements are handled and monitored.
- Lacks an adequate review process to ensure checks received are deposited with the District. Additionally, not all lease revenue is being tracked.
- Does not have a policy or rate schedule showing how much to charge for leases and rentals.
- Does not have a policy detailing when a lease is appropriate and when a rental is appropriate.

Cause of Condition

The District has not established adequate policies and internal controls over the rental and lease receipting process. The policies in place do not provide guidance to determine the type of rental or lease agreement, the rate to charge or insure proper monitoring of the agreements.

Effect of Condition

The District is not applying consistent rental and lease fees to all tenants and is not determining a tenant's status prior to deciding to rent to the tenant or draw up a lease. Poor internal controls increase the risk of misappropriation, loss of revenue or inability to detect errors in a timely manner if at all. Furthermore, lack of adequate internal controls makes it difficult to determine who is responsible if a loss occurs. Also, without adequate internal controls the District cannot ensure all rental and lease revenue was received.

Recommendation

We recommend the District:

- Ensure rental agreements are in place with all tenants.
- Create a process to consistently apply rent to tenants.
- Comply with state laws for establishing lease agreements.
- Apply sufficient internal controls over rental and lease revenues.

District's Response

The District acknowledges there were weaknesses in the administration of short term leases and facility rentals for the period included in the audit. In addition to a change in personnel, the District is clarifying its procedures and improving the internal controls in place to ensure proper administration of this area of responsibility. Payments due from all short term lease agreements will be entered into the District's accounts receivables system to generate monthly invoices and ensure tracking of payments. The District is also auditing all of the lease agreements to ensure that tenants are operating under current agreements at approved rental rates.

We are also automating the incidental rental of school and district facilities, to provide better internal controls over collection and deposit of revenues.

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.335.040 Surplus school property, rental, lease, or use of--Authorized—Limitations, states:

(1) Every school district board of directors is authorized to permit the rental, lease, or occasional use of all or any portion of any surplus real property owned or lawfully held by the district to any person, corporation, or government entity for profit or nonprofit, commercial or noncommercial purposes: PROVIDED, That the leasing or renting or use of such property is for a lawful purpose and does not interfere with conduct of the district's educational program and related activities: PROVIDED FURTHER, That the lease or rental agreement entered into shall include provisions which permit the recapture of the leased or rented surplus property of the district should such property be needed for school purposes in the future except in such cases where, due to proximity to an international airport, land use has been so permanently altered as to preclude the possible use of the property for a school housing students and the school property has been heavily impacted by surrounding land uses so that a school housing students would no longer be appropriate in that area.

(2) Authorization to rent, lease or permit the occasional use of surplus school property under this section, RCW 28A.335.050 and 28A.335.090 is conditioned on the establishment by each school district board of directors of a policy governing the use of surplus school property.

RCW 28A.335.050 Surplus school property, rental, lease or use of--Joint use--
Compensation--Conditions generally, states in part:

(2) Authorization to rent, lease, or permit the occasional use of surplus school property under RCW 28A.335.040 shall be conditioned on the payment by all users, lessees or tenants, assessed on a basis that is nondiscriminatory within classes of users, of such reasonable compensation and under such terms as regulations adopted by the board of directors shall provide.

(3) Nothing in RCW 28A.335.040 and 28A.335.090 shall prohibit a school board of directors and a lessee or tenant from agreeing to conditions to the lease otherwise lawful, including conditions of reimbursement or partial reimbursement of costs associated with the lease or rental of the property.

Status of Prior Audit Findings

Edmonds School District No. 15 Snohomish County April 18, 2008

The status of findings contained in the prior years' audit reports of Edmonds School District No. 15 is provided below:

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

Report No. 72789, dated March 19, 2007

Background

The Meadowdale High School administration 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.

Status

The prior year's audit finding for cash receipting has been resolved with the exception of the Mountlake Terrace High School student store.



ABOUT THE STATE AUDITOR'S OFFICE

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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. 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 program to coordinate audit efficiency and to ensure high-quality audits.

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