

Washington State Auditor's Office
Accountability Audit Report

Seattle School District No. 1
King County

Report Date
July 1, 2009

Report No. 1001793

Issue Date
July 20, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

July 20, 2009

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

Table of Contents

Seattle School District No. 1
King County
July 1, 2009

Audit Summary	1
Related Reports	2
Description of the District	3
Schedule of Audit Findings and Responses	5
Status of Prior Audit Findings	11

Audit Summary

Seattle School District No. 1 King County July 1, 2009

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Seattle School District No. 1 for September 1, 2007, through August 31, 2008.

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. The following areas were examined during this audit:

- Public Disclosure Act/records retention
- Payroll
- Conflict of interest/payments to board members
- Safeguarding of assets
- School Districts - I-728 (Student Achievement)
- General disbursements/travel

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as findings:

- The District did not report all known and suspected losses of public funds or assets to the State Auditor's Office.
- The District is incorrectly reporting teacher education and experience (staff mix).

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

Related Reports

**Seattle School District No. 1
King County
July 1, 2009**

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.

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 three federal findings regarding:

- Lack of adequate internal controls to ensure accuracy of reported Highly Qualified Teacher data.
- Lack of adequate internal controls to ensure that Private Schools will receive Title I services in an equitable manner.
- Lack of internal controls to ensure compliance with federal procurement requirements.

Description of the District

Seattle School District No. 1 King County July 1, 2009

ABOUT THE DISTRICT

Seattle School District No. 1 serves approximately 45,000 students and operates 12 high schools, ten middle schools, 57 elementary schools, eight kindergarten through eighth grade schools and nine alternative schools and special programs. An elected, seven-member Board of Directors oversees the District. The Board sets priorities and manages resources. The Board appoints a Superintendent who oversees day-to-day operations. The District had a \$519 million operating budget 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

AUDIT HISTORY

We audit the District annually. The past three 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 in misappropriated public funds and questionable payments. Internal controls over enrollment reporting were inadequate.
- In the 2007 audit we reported four findings, two of which were reported 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. There were unallowable expenditures and a lack of internal controls to ensure compliance with reporting requirements for the GEAR-UP grant.

Schedule of Audit Findings and Responses

Seattle School District No. 1 King County July 1, 2009

1. **Seattle School District No. 1 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. 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.

Description of Condition

During the current audit, we asked the District to provide a list of assets that had been lost or misappropriated. We requested a similar report from the District's Safety and Security Office. That report included instances of misappropriation, some of which were reported to law enforcement. From this list and police reports, we were able to identify at least 82 instances of losses from 2007 to 2009 that were not reported to our Office. Some of the items identified as not reported to our Office include laptop computers, overhead LCD projectors and a riding lawn mower. The dollar value assigned to the lost or misappropriated assets, which was not investigated by our Office, was at least \$118,911. Some of the assets identified did not have values assigned on the list or in the police reports.

Additionally, while visiting a high school to verify the location of certain assets, we found that in late 2007, \$800 was misappropriated. Again, the loss was not reported to our Office. Additionally, copper wiring was stolen from three school buildings. Risk management and Maintenance Services staff provided verbal estimates for replacing the copper wiring at just one of the schools at \$500,000 or more; this was not reported to our Office.

When asked why these losses were not immediately reported, some District staff stated they had no knowledge of the requirement. Other District staff stated that they did not think that small amounts needed to be reported. We again communicated to the District that the law does not include a reporting threshold and that they must report all known and suspected losses and other illegal activity to us.

Cause of Condition

The District did not follow previous audit recommendations. Despite written notification, District management had not properly informed District staff of the reporting requirement. Moreover, the District does not have a central reporting process in place to ensure that known or suspected losses or other illegal activity are immediately reported to the State Auditor's Office.

Effect of Condition

By not immediately reporting all known or suspected losses or other illegal activity, the District is not complying with the law. Moreover, by not complying with the law, full accountability and transparency is not provided to taxpayers who fund District operations.

Recommendation

We recommend that the District establish a central reporting process for known and suspected losses or other illegal activity that are to be reported to the State Auditor's Office. Moreover, we recommend that management notify all District staff of the reporting requirement, establish written reporting procedures and identify a lead staff member to work with District security, individual schools and other District staff to ensure that known or suspected losses or other illegal activity are immediately reported as required by law.

District's Response

The District concurs with the auditor's recommendations and will establish the necessary processes along with written procedures to help ensure that known and suspected losses of public funds or assets are reported to a central office as well as to the State Auditor's Office.

Auditor's Remarks

We thank the District for its efforts to improve compliance with this law. We will continue to review this area in future audits.

Applicable Laws and Regulations

Revised Code of Washington (RCW) section 43.09.185 says, 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:

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 July 1, 2009

2. Seattle School District No. 1 is incorrectly reporting teacher education and experience (staff mix).

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 (OSPI).

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

Description of Condition

Career and technical education instructors who obtain teaching certificates based on industry experience rather than a college degree may be placed higher on the LEAP table due to that experience. They receive one credit for each 100 hours of experience. If any of this time is managerial or supervisory, they also may be credited with up to six years of experience when hired. Districts must have documentation to support industry and/or managerial experience.

In the prior two audits, we identified errors in the District's staff mix reporting. Current year reporting data indicates most of the errors identified in fiscal year 2006 were not corrected. As a result, credits and/or years of experience continue to be over- or under-reported to OSPI. Some of these errors affect placement on the LEAP schedule.

We audited an additional 13 files in fiscal year 2008 and identified significant errors in the reporting of non-degree credits and years of experience. For four of the 13 instructors holding a vocational certificate, the errors affect placement on the LEAP schedule. Of the remaining nine certificated staff files audited, seven have errors that do not affect placement on the LEAP schedule.

Cause of Condition

The District reported 23 instructors without college degrees in the 2007-2008 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. Errors were due to the District:

- Not sufficiently documenting all credits or years of experience reported.

- Inaccurately calculating business or industry experience, resulting in some instructors being credited with more and other instructors being credited with fewer non-degree credits than they were entitled to receive.
- Inaccurately calculating occupational management or supervisory experience, resulting in some instructors being credited with less years of experience than they should have received.
- The first three years of industry experience must be subtracted from total industry experience before calculating converted credits and managerial experience. A maximum of 2,000 hours per year may be counted. The District counted in excess of 2,000 hours per year.
- Counting career and technical education courses before the instructors met all course requirements identified in Washington Administrative Code 181-77-041(1)(b) and (c).

Effect of Condition

The District incorrectly reported staff mix information to OSPI for the 2007-2008 school year. Inappropriate amount of funding will be identified during audit resolution.

Recommendation

We recommend the District:

- Acquire sufficient documentation to support occupational/industry work experience used for determining nondegree credits and years of experience.
- Follow the rules as stipulated in Washington Administrative Code 392-121-259 when determining clock hour credits allowable for reporting purposes.
- Correct all identified errors on its report to OSPI for fiscal year 2009.

District's Response

The District concurs with the differences found in the calculation of LEAP during the audit process. The calculation of LEAP has largely been unaudited; hence errors in calculations were noted to be systematic errors. This combined with the fact that process is paper-heavy and is further complicated by inter-district movement of vocational teachers during the school year has created errors that the District is currently addressing.

Going forward, the District will implement a spreadsheet based procedure to review every file for certified credits issued and related LEAP calculations as part of the annual Staff Mix reporting process.

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

Washington Administrative Code 392-121-259 – Definition – Nondegree credits. Nondegree credits means credits recognized for nondegree certificated instructional employees as follows:

- (a) One credit for each one hundred clock hours of occupational experience as defined in WAC 181-77-003(7), subject to the following conditions and limitations:
 - (i) Clock hours of occupational experience used in determining nondegree credits must be earned after meeting the minimum vocational/career and technical education certification requirements of three years (six thousand hours) as established in WAC 181-77-041 (1)(a)(i), regardless of when the initial certificate is issued and regardless of type of vocational/career and technical education certificate held.
 - (ii) Nondegree credits based on occupational experience shall be limited to a maximum of twenty credits per calendar year.
 - (iii) Nondegree credits based on occupational experience shall exclude experience determined pursuant to WAC 392-121-264 (1)(a) through (d).

- (b) One credit for each ten clock hours of vocational/career and technical education educator training meeting the requirements of WAC 181-77-003 (2), (9), or (12). Clock hours of vocational/career and technical education educator training used in determining nondegree credits must be earned after meeting the minimum vocational/career and technical education certification requirements as established in WAC 181-77-041 (1)(b) and (c), regardless of when the initial certificate is issued and regardless of type of vocational/career and technical education certificate held.

Washington Administrative Code 181-77-041 – Requirements for candidates seeking career and technical education certification on the basis of business and industry work experience. Candidates for certification who have not completed approved programs set forth in WAC 181-82-322 shall complete the following requirements in addition to those set forth in WAC 181-79A-150 (1) and (2) and 181-79A-155 (1) and (2).

- (1) Initial.
 - (b) Candidates for the initial certificate shall complete a professional educator standards board approved program under WAC 181-77A-029 in which they demonstrate competence in the general standards for all career and technical education teacher certificate candidates pursuant to WAC 181-77A-165, which include but are not limited to knowledge and skills in the following areas:
 - (i) General and specific safety;
 - (ii) Career and technical education teaching methods;
 - (iii) Occupational analysis;
 - (iv) Course organization and curriculum design;
 - (v) Philosophy of vocational education;

- (vi) Personal student development and leadership techniques.
- (c) Candidates for the initial certificate shall also demonstrate knowledge and skills in the following areas:
 - (i) School law;
 - (ii) Issues related to abuse as specified in WAC 181-77A-165(7).

Washington Administrative Code 392-121-180 – Placement on LEAP salary allocation documents – 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:

- (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
- (c) (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);

Washington Administrative Code 392-121-264 – Definition – Certificated years of experience. Regardless of the experience factors used by a school district for the purposes of its salary schedule(s), as used in this chapter, the term "certificated years of experience" means the number of years of accumulated full-time and part-time professional education employment prior to the current reporting school year in the state of Washington, out-of-state, and a foreign country. School districts shall report all certificated years of experience including those beyond the experience limit of the school district's salary schedule.

- (d) For nondegreed vocational/career and technical education instructors, up to a maximum of six years of management experience as defined in WAC 181-77-003(6) acquired after the instructor meets the minimum vocational/career and technical education certification requirements of three years (six thousand hours) established in WAC 181-77-041 (1)(a)(i), regardless of when the initial certificate is issued and regardless of type of vocational/career and technical education certificate held. If a degree is obtained while employed in the state of Washington as a nondegreed vocational/career and technical education instructor, the eligible years of management experience pursuant to this subsection reported on Report S-275 prior to the awarding of the degree shall continue to be reported but shall not increase.

Status of Prior Audit Findings

Seattle School District No. 1 King County July 1, 2009

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

1. Seattle School District No 1's internal controls over payroll continue to be inadequate and, as a result, public funds were misappropriated.

Report No. 75032, dated May 19, 2008

Background

In each of the last six audits, we reported internal control weaknesses in the District's payroll system, and documented a history of losses in this area.

The District spent \$344 million in wages and benefits in the 2006-2007 school year and losses related to the payroll system continued.

During the audit, we noted little improvement in internal controls over payroll system. This led to additional losses of public funds during the 2006-2007 school year.

In April 2007, the District determined that a Secretary in the Family Support Worker Program had added hours to her timesheets that were not worked and received pay she was not entitled to. The employee was terminated on July 27, 2007.

The District's investigation found a former District Secretary misappropriated at least \$8,743 in public funds from the District from October 1, 2006, through April 10, 2007. We reviewed the District's investigation and agreed with its results and conclusions. Our audit found that employee access to Extra Time Reporting forms continued to be inadequately controlled. The former employee had access to these forms and was able to submit 298 hours of overtime that were not approved. The former employee falsified her supervisor's signature on these forms.

On July 23, 2007, the District contacted our Office regarding this potential loss of public funds. However, this report of a suspected loss of public funds was not made promptly as required by state law.

Federal funds were not involved in this case.

Status

1. Implementation of SAP system is complete.
2. Detective controls include review of hours and dollars entered before posting GL entry and payments.

3. Internal Auditor's work plan includes review of internal controls within the payroll and HR areas.
2. **Associated Student Body funds were spent for unallowable purposes and processed in violation of District policies.**

Report No. 75032, dated May 19, 2008

Background

The District paid \$69,505 from its Associated Student Body (ASB) Extended Travel Imprest Fund during fiscal year 2007. We selected the four largest individual disbursements totaling \$39,820, or 57 percent of ASB Extended Travel Imprest Fund disbursements. Our review determined that \$25,000 in travel advances were processed in violation of District policies. Moreover, \$15,174 of the disbursements reviewed were for unallowable purposes.

These expenditures were related to the "Hands for a Bridge" program. "Hands for a Bridge" was a class as well as an ASB activity at Roosevelt High School. The program provided students an exchange opportunity with partner schools in Belfast, Ireland and Cape Town, South Africa. Roosevelt High School teachers and students made two trips overseas as part of this program. Additionally, teachers and students from another country were brought to Seattle as part of this program.

For the overseas trips made by District personnel and students, travel advances totaling \$25,000 were made (\$15,000 for a trip to Northern Ireland and \$10,000 for a trip to South Africa). These advance requests violated District policy because the money was used to purchase airline tickets. The policy states travel advances are to be used for out-of-pocket expenses incurred while in travel status, such as taxis and food. Further, travel advance funds were used to purchase items overseas to be sold at an ASB fund-raising auction.

Receipts obtained at the end of trips included \$45 in alcoholic beverage purchases; \$212 in gifts for hosts in the foreign countries and \$97 for a replacement passport. The ASB fund was not reimbursed for any of these improper expenditures.

In conjunction with this program, students and teachers from South Africa also came to Seattle. Public ASB funds in the amount of \$14,820 were improperly used to pay for plane tickets for them to travel to Seattle out of the advance travel fund.

Finally, the District was unable to provide minutes of ASB meetings to show the ASB Student Council had approved any of these expenditures.

Status

4. District continues to monitor ASB payments via the monthly warrant review process.
5. Internal Auditor provided awareness of the importance of adhering to a good system of internal controls to Principals during the Summer Leadership institute.



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 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.

State Auditor
Chief of Staff
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
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

Web Site
Subscription Service

www.sao.wa.gov
<https://www.sao.wa.gov/EN/News/Subscriptions/>