

Washington State Auditor's Office
Accountability Audit Report

Seattle School District No. 1
King County

Report Date
June 29, 2011

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

June 30, 2011

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 29, 2011

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Audit Summary

Seattle School District No. 1 King County June 29, 2011

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Seattle School District No. 1 from September 1, 2009 through August 31, 2010.

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 period:

- Associated Student Body
- Disbursement testing
- Science, Technology, Engineering and Math computer program
- Payroll
- State, local, and private grants
- Kindergarten tuition fees
- Rental revenue
- Open Public Meetings Act
- Alternative Learning Education

RESULTS

We identified conditions significant enough to report as findings:

- The District's inadequate internal controls over Associated Student Body activities resulted in a loss of public funds.
- The District's inadequate internal controls over Associated Student Body activities put funds at risk for loss and resulted in noncompliance with state law.
- The District paid \$36,000 for charges that were unsupported, overbilled and outside the scope of contract.
- The District does not have sufficient policies and controls for the Science, Technology, Engineering and Math computer program to ensure laptops issued to students are safeguarded. The District also is not recovering the costs to replace lost or stolen laptops.

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
June 29, 2011

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 federal findings regarding:

- 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.
- The District did not comply with federal requirements for time and effort documentation related to its Indian Education program and Special Education programs. Time and effort documentation assures that salaries and benefits charged to federal programs are accurate and valid.

Description of the District

Seattle School District No. 1 King County June 29, 2011

ABOUT THE DISTRICT

Seattle School District No. 1 serves more than 46,000 students and operates 10 high schools, nine middle schools, 57 elementary schools, 10 kindergarten through eighth grade schools and seven 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 \$558 million for the 2009-2010 school year and \$556 million for the 2008-2009 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	Kay Smith-Blum
District 6	Steve Sundquist
District 7	Betty Patu

APPOINTED OFFICIALS

Superintendent	Maria Goodloe-Johnson
Chief Academic Officer	Susan Enfield
Chief Financial and Operations Officer	Don Kennedy
Legal Counsel	Gary Ikeda
Accounting Manager	Kathie Technow
Internal Auditor	Kariuki Nderu

DISTRICT CONTACT INFORMATION

Address: Seattle School District No. 1
MS 33-343
P.O. Box 34165
Seattle, WA 98124-1165

Phone: (206) 252-0000

Website: www.seattleschools.org

AUDIT HISTORY

We audit the District annually. The past five 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.
- In the 2009 audit we reported 12 findings, seven of which were in the report of financial statements and federal single audit. Internal controls over financial statement preparation and payroll 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, using capital funds for unallowable expenditures and for failing to implement sufficient policies and controls to ensure the District is complying with state law and its own policies.

Schedule of Audit Findings and Responses

Seattle School District No. 1 King County June 29, 2011

1. **The District's inadequate internal controls over Associated Student Body (ASB) activities puts funds at risk for loss and resulted in noncompliance with state law.**

Background

ASB allows students to be involved in planning events such as dances, fundraisers and other extra-curricular activities with the help of faculty advisors. Students are responsible for creating budgets and managing revenues and expenditures. ASB councils at each school must pre-approve ASB events and expenditures. The District is responsible for having systems to properly safeguard public assets and that comply with state law and its own policies.

The District's ASBs collected a total of \$4,164,827 in the 2009-2010 school year from athletic fees, dances, fundraisers for teams and clubs, yearbooks and school store sales. During the 2009-2010 school year, ASB expenditures totaled \$4,241,126. All expenditures must be pre-approved by a school's student government.

On December 16, 2010, the District notified our Office of a potential misappropriation at Garfield High School. We are reporting a separate finding on the results of the District's investigation into this matter and our follow-up procedures.

Description of Condition

We reviewed internal controls over ASB activities and fundraisers at six high schools, one middle school and controls over payments recorded in the ASB fund. We found:

ASB checking accounts

ASB imprest funds for the Metro League (the District's athletic office) and the schools in which we performed audit work exceeded the dollar limits last authorized by a School Board resolution in 1985. The limits are:

- Middle schools: \$1,500
- High schools: \$2,500
- Metro League: \$3,500.

The balances on record at the District were:

- \$1,999-\$3,000 at two of six middle schools
- \$4,000-\$6,000 at eight of nine high schools
- \$5,000 for the Metro League.

Franklin High School's February 2011 bank statement stated the ending checking account balance for the ASB was \$565. The balance on record at the District's Central Office was \$6,000. The District could not determine what happened to the balance of \$5,435 due to a lack of documentation on account activity. Moreover, we learned the school had not submitted a claim for reimbursement since 2006. The custodian of this account told us she did not know how to submit a reimbursement request. The District's ASB procedures and Washington Association of School Business Officials (WASBO) ASB procedures manual say imprest accounts must be replenished at least once a month.

ASB payments

For 42 out of 64 purchases we examined, the ASB governing body did not approve purchases in advance as required by state law. We also noted 26 instances in which the invoice date preceded the purchase order date, which indicates the District ordered and received goods before it completed the purchase order. Moreover, we noted one \$4,613 payment was made without an invoice. Instead, the ASB advisor attached an email from the vendor to the voucher. District policy requires an invoice.

We also found the District did not comply with state law regarding ASB charitable fundraisers. These fundraisers are different from other ASB fundraisers in that they are meant to benefit a private organization. If a charitable fundraiser does not meet certain requirements, the money must be deposited in an ASB account and cannot be used for a private purpose. We examined five charitable fundraisers and all five failed at least one requirement. Specifically,

- Four of the five did not ensure public notices on the fundraisers were publically posted. The one that did post notices did not include language stating the fundraiser did not benefit the ASB, but a private organization.
- ASB minutes that we were able to find did not record that the ASB student council approved these fundraisers.

We also examined ASB travel expenditures to determine whether they complied with the District's policies and procedures and found:

- The District makes advances only for travel paid with ASB money. WAC 392-138-120 requires the Board to authorize the maximum amount for ASB checking accounts and the method and frequency of replenishment. State law (RCW.42.24.130) requires the Board to establish travel revolving funds solely for the use of paying travel advances. The Board did not do this, so the District has been making unallowable advance travel payments with ASB money. During the audit period, \$48,500 flowed through this account, including an advance of \$28,000 for students at Eckstein Middle School to travel to Japan.
- District travel procedures require prior authorization by the Chief Academic Officer for out-of-state or out-of-country travel. That did not occur. This unapproved travel totaled \$136,700 out of \$175,616 in travel expenditures that we looked at.

ASB at individual schools

Meeting minutes

Four of seven schools did not record ASB meeting minutes. State law requires ASBs to take minutes and permanently keep them. When we did find minutes, they did not contain the information suggested in the WASBO manual. The meeting minutes provided to us lacked information such as student body members present and absent, approval of prior meeting minutes and approval of ASB activities, and did not have the signature of a student representative.

Budgets

All seven schools submitted an ASB budget to the District's central office. Six schools' actual expenditures exceeded final budgeted amounts. The WASBO manual states ASBs may not exceed approved expenditure budgets. We also learned that for all seven of the schools, ASB budgets were prepared without input from the student body government.

Fundraisers and other events

None of the six high schools' fundraising and ticketing processes comply with District's ASB procedures and the ASB manual. They did not retain or complete documentation to support revenue generated by activities. As a result, we are unable to determine if all proceeds were deposited in a District bank account and recorded in the general ledger. No one performs a final reconciliation to ensure that revenue from fundraisers and ticket sales are accounted for.

Yearbooks

We identified weaknesses at each school regarding how they account for yearbooks. No one reconciles sales to revenue at the end of the year or inventories unsold yearbooks. This increases the risk of misappropriation of public funds. Moreover, in instances in which we had sufficient documentation to reconcile yearbooks sales, we determined one school could not account for 40 yearbooks worth \$1,600 and another could not account for 11 yearbooks worth \$555.

Athletic fees

The District does not have a central policy on athletic fee waivers and the schools have different policies and understandings of athletic fee waivers. We noted that at least two schools waived 38 percent to 70 percent of students' athletic fees without written waivers. Also, no one reconciles athletic fees to ensure all students have paid and that all money is accounted for. This results in a high number of students who do not pay the required athletic fees.

Cause of Condition

Despite prior audit recommendations, the District has not allocated the necessary resources to ensure ASB activities comply with the School Accounting Manual, state laws and regulations and the procedures manual. We found the District's ASB manual

did not contain key provisions of the WASBO manual that address documentation and procedural requirements designed to prevent weaknesses we observed.

Staff responsible for overseeing ASB fundraisers lack knowledge and training necessary to ensure ASB funds are accounted for and District policies and procedures are followed. Also, no one performs or reviews reconciliations of ASB activities to ensure all money is accounted for.

At the school levels, principals and other administrators are not ensuring staff complies with ASB requirements and are not providing oversight of activities to ensure schools comply with ASB procedures and safeguard ASB money.

Before the audit, the Central Office was aware that schools frequently do not make timely deposits; do not replenish their checking accounts monthly; do not comply with District procedures and do not record all ASB activity in the general ledger. The Central Office does not hold staff accountable when it finds noncompliance.

Staff was not familiar with state law when establishing the ASB advance travel checking account.

Effect of Condition

Ineffective and inadequate controls and inadequate supervisory oversight increase the risk for misappropriations.

Because the District lacked documentation, we could not determine if all money generated from ASB activities at the seven schools was deposited into a District bank account.

When state law requirements for charitable fundraisers are not followed, money collected becomes public funds and cannot be used for private purposes. Also, when students solicit donations as private individuals without proper notices, donors may believe they are contributing money for ASB purposes.

Without proper tracking of amounts paid, owed and adjustments, the risk of loss increases from undetected vendor billing errors and District overpayments.

Ineffective controls over travel checking accounts increase the risk of misappropriation through use of unauthorized checking accounts. For example, non-district checking accounts could be opened in the District's name and District funds diverted into these unauthorized accounts.

Not following established controls for travel expenditures increases the risk that travel expenses could be paid for unauthorized travelers, unauthorized trips and unauthorized purposes.

Without individual activity budgets that are prepared by account and outline the revenues and expenditures expected for the next school year, the school cannot accurately forecast ASB activities.

Recommendation

We recommend the District:

- Hold staff accountable when District policies or procedures are not followed.
- Amend its procedures manual to adopt provisions included in the WASBO ASB procedures manual that address documentation and procedural requirements.
- Ensure employees follow the District's ASB procedures manual.
- Discuss with the School Board the need to amend resolutions to reflect current District needs and operations with regard to travel advances and other ASB imprest accounts.
- Ensure staff follows the District's travel procedures.
- Perform reconciliations of ASB activities to ensure all money is deposited. This reconciliation should be reviewed and verified by someone other than the person responsible for completing the reconciliation.
- Ensure school principals provide the necessary oversight of ASB activities.

District's Response

The District concurs with this finding. The District is amending both ASB and travel procedures to strengthen internal controls in these areas. The District is committed to holding staff accountable to District policies and procedures.

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

WAC 392-138-110 – Associated student body public moneys – Associated student body program budget.

Each associated student body of a school district, with the guidance of the primary advisor, and at such time as is designated by the central district office, annually shall prepare and submit a financial plan (budget) for support of the associated student body program to the district superintendent or his/her designee for consolidation into a district associated student body program fund budget and then present such budget to the board of directors of the district for its review, revision, and approval: Provided, That revisions of the budget submitted by an associated student body and revisions of the budget approved by the board of directors shall first be reviewed by the associated student body and, in the case of an approved budget, shall be subject to the requirements of chapter 28A.505 RCW regarding emergency

expenditures or budget extensions. The budget as approved shall constitute an appropriation and authorization for the disbursement of funds for the purposes established in the budget.

WAC 392-138-120: Associated student body public moneys — Imprest bank checking account.

The board of directors of a school district may authorize the establishment and maintenance of an associated student body imprest bank checking account for convenience and efficiency in expediting disbursements, subject to the following conditions:

- (1) The maximum amount of such an account shall be no more than is necessary to provide for disbursements at the level of the month of highest estimated demand for disbursements;
- (2) An imprest bank checking account shall be initiated by deposit of, and replenished by, a warrant drawn on the associated student body program fund;
- (3) Disbursements from an imprest bank checking account shall be by check and shall be restricted to payments of invoices bearing evidence of student approval in accordance with associated student body bylaws;
- (4) An imprest bank checking account shall be replenished at least once each month by a warrant drawn on the associated student body program fund in payment of an approved voucher in an amount equal to the sum total of the disbursements made by check from the imprest bank checking account during the preceding interval; and
- (5) The replenishment voucher shall reflect such information as the central district office shall prescribe relative to identification of invoices, invoice approvals, codification of expenditures, cancelled checks, and other information deemed pertinent.

WAC 392-138-125: Associated student body public moneys – Disbursement approval – total disbursements.

Associated student body public moneys shall be disbursed subject to the following conditions:

- (1) No disbursements shall be made except as provided for in the budget approved pursuant to WAC 392-138-040;
- (2) Disbursements shall occur only upon presentation of properly prepared vouchers in such format and design as the central district office shall prescribe;
- (3) All disbursements from the associated student body program fund or any imprest bank account established thereunder shall have the prior approval of the appropriate governing body representing the associated student body. Supporting documentation of the vouchers shall bear

evidence of approval by the associated student body governing body in accordance with associated student body bylaws;

(4) When an account within the fund balance of an associated student body organization does not contain a sufficient balance to meet a proposed disbursement, such disbursement shall be limited to the fund balance: Provided, That a transfer of fund balance between associated student body organizations may be made pursuant to the associated student body bylaws and as approved by the associated student body governing body;

(5) Warrants shall not be issued in excess of the moneys on deposit with the county treasurer in the associated student body program fund; and

(6) All disbursements shall be made by warrant except for disbursements from imprest bank accounts and petty cash funds provided for in this chapter.

WAC 392-138-210: Nonassociated student body private moneys – Disbursement approval – Total disbursements.

Nonassociated student body private moneys shall be disbursed subject to the following conditions:

(1) If such funds are held in trust within the associated student body fund, they shall be budgeted pursuant to WAC 392-138-013 (1)(d). No disbursements shall be made except as provided for in the budget approved pursuant to WAC 392-138-110. All disbursements shall have the prior written approval of the associated student body or such other authority designated in school district policy or procedures;

(2) If such funds are held in a trust fund, they are not budgeted. Disbursements shall occur only upon presentation of properly prepared vouchers in such format and design as the central district office shall prescribe, and as provided for in subsection (3) of this section;

(3) Vouchers authorizing disbursements shall be accompanied by written evidence of approval of disbursement by the associated student body or other authority designated in the school district's policies and procedures;

(4) Disbursements shall be made only for the intended purposes pursuant to WAC 392-138-200.

RCW 28A.325.030 Associated student body program fund - Fund-raising activities - Nonassociated student body program fund moneys, states in part:

(2) Subject to applicable school board policies, student groups may conduct fund-raising activities, including but not limited to soliciting donations, in their private capacities for the purpose of generating nonassociated student body fund moneys. The school board policy shall include provisions to ensure appropriate accountability for these funds. Nonassociated student body program fund moneys generated and

received by students for private purposes to use for scholarship, student exchange, and/or charitable purposes shall be held in trust in one or more separate accounts within an associated student body program fund and be disbursed for such purposes as the student group conducting the fund-raising activity shall determine: PROVIDED, That the school district shall either withhold an amount from such moneys as will pay the district for its direct costs in providing the service or otherwise be compensated for its cost for such service. Nonassociated student body program fund moneys shall not be deemed public moneys under section 7, Article VIII of the state Constitution. Notice shall be given identifying the intended use of the proceeds. The notice shall also state that the proceeds are nonassociated student body funds to be held in trust by the school district exclusively for the intended purpose. "Charitable purpose" under this section does not include any activity related to assisting a campaign for election of a person to an office or for the promotion or opposition to a ballot proposition.

RCW 42.24.130 Advancements for travel expenses--Revolving fund.

The legislative body of a municipal corporation or political subdivision wishing to make advance payments of travel expenses to officials and employees, as provided in RCW 42.24.120 through 42.24.160, will establish, in the manner that local legislation is officially enacted, a revolving fund to be used solely for the purpose of making advance payments of travel expenses. The revolving fund will be maintained in a bank as a checking account and advances to officials or employees will be by check. The fund will be replenished by warrant.

Seattle Public Schools Travel Procedures

Travel Authorization:

A. The Principal/Manager/Director, as appropriate, may authorize travel outside of Seattle School District and within the state of Washington. Requests to travel to Portland, Oregon, Vancouver BC, and Victoria BC and within these metropolitan areas are to be treated as in-state travel. The Principal/Manager/Director, as appropriate, must approve any travel request before such costs take place.

B. Travel outside the State of Washington must be approved by the Principal/Manager/Director as appropriate and Chief Academic Officer in advance of such travel.

C. Travel outside of the United States (except as noted in item A) must be approved by the Principal/Manager/Director as appropriate and Chief Academic Officer in advance of such travel.

Seattle School Board Resolution Number 1985-23

WHEREAS, WAC 392-138-055 (Imprest Bank Checking Account) allows the Board of Directors of a School District to authorize the establishment of an Associated Student Body Imprest Bank Checking Account and

District Policies and Procedures Manual D11.03 (School Contingent Funds) allows for use of Contingent Funds and

WHEREAS, the State Auditor during their current audit has recommended that all District Imprest and Contingent Funds be authorized with a specific limitation by the School Board, NOW THEREFORE

BE IT RESOLVED, that the Board of Directors hereby authorize the use of Imprest and Contingent Funds for the Associated Student Body Fund and the General Fund in amounts as follows: High Schools \$2,500.00, Middle Schools \$1,500.00, Elementary Schools \$750.00 and Departments \$500.00.

Adopted this 6th day of November, 1985.

Schedule of Audit Findings and Responses

Seattle School District No. 1 King County June 29, 2011

2. The District's inadequate internal controls over Associated Student Body (ASB) activities resulted in a loss of public funds.

Background

ASB allows students to be involved in planning events such as dances, fundraisers and other extra-curricular activities, with the help of faculty advisors. Students are responsible for creating budgets and managing revenues and expenditures. ASB councils at each school must pre-approve ASB events and expenditures. The District is responsible for having systems that properly safeguard public assets and comply with state law and its own policies.

Description of Condition

On December 16, 2010, the District notified our Office that it had found the fiscal specialist at Garfield High School had not been making deposits in a timely manner and that it was doing an internal investigation. The District stated it had placed this individual on paid administrative leave on December 15, 2010.

The District's investigation found \$6,186 collected had not been deposited in a District bank account. We reviewed the District's investigation and performed additional procedures to determine the total amount of the suspected loss.

District employees stated they discovered the potential loss when the District ASB accountant went to Garfield High School on December 14, 2010, to train a new employee on how to deposit athletic fees. While the accountant was there, the school's principal opened the door to the fiscal specialist's office, where the ASB accountant found checks and cash totaling \$56,380 in unsecured locations. The ASB accountant notified the District's Executive Director of Finance, who told the accountant to bring the cash and checks to the District's central office. Three employees at the central office counted the checks and cash, deposited the funds into a District bank account and recorded the amounts in the general ledger.

The District's internal investigation reviewed receipts made out for money received, deposit slips and accounting worksheets from the school store to look for any money collected that did not trace to a bank deposit. The District determined that \$6,186 was collected and not deposited into a District bank account from September 2010 through December 2010. The District did not look for amounts missing prior to September 2010 with the exception of the school store. We then reconciled cash receipts to bank deposits from September 2009 to August 31, 2010. We were not able to determine if more money was missing due to missing receipts.

The District states it cannot determine who is responsible for the loss because many people, including students, had access to the office.

Shortly after placing the employee on administrative leave, the District's Human Resources Department investigated the matter. During the investigation, the District's Accounting Department found invoices totaling \$168,828 in the fiscal specialist's office had not been paid. The failure to process invoices resulted in finance charges of \$5,683. This amount includes \$1,025 in late fees that must be absorbed by the ASB fund.

During the audit we identified another suspected loss of ASB funds regarding an event at Garfield High School in which a professional basketball team ran a scrimmage at the school's gym. School staff stated 1,300 tickets were sold for \$5 each, totaling \$6,500. All proceeds from the event were supposed to be donated to the Garfield High School Foundation. During the event, a District employee collected the money at the door. After the event, the money was placed into a safe at the school, and the following day the money was given to the fiscal specialist for deposit. The school's basketball coach instructed the fiscal specialist to deposit the money with the Foundation.

The Alliance for Education is the fiscal agent of the Garfield High School Foundation. We spoke to the Alliance's Chief Financial Officer and confirmed it did not receive any money from the school for this event. We also confirmed with the District's Accounting Department that the money was not deposited into a District bank account. Furthermore, a charitable fundraiser must meet several requirements; otherwise, if the conditions are not met, the money becomes ASB public money and cannot be used for private purposes. We found that the conditions were not met. Therefore, the total known loss to the District from this and the loss discussed above is \$12,686 (\$6,500 plus \$6,186).

We interviewed the fiscal specialist. Based on that interview and on information gathered during our follow-up procedures, we are unable to determine who was responsible for the loss.

Cause of Condition

Inadequate and ineffective supervisory oversight resulted in a loss of public funds and allowed an employee to disregard District procedures.

Effect of Condition

The District's internal controls are inadequate to ensure all ASB fundraiser and concession revenues are received, properly reconciled and deposited. This condition led to a loss of at least \$12,686 at Garfield High School. The District also lacked documentation to allow us to determine the full extent of that loss.

Recommendation

We recommend the District:

- Hold staff accountable when District policies or procedures are not followed.

- Ensure employees follow the District's ASB procedures manual.
- Perform reconciliations of ASB activities to ensure all money is deposited. This reconciliation should be reviewed and verified by someone other than the person responsible for completing the reconciliation.
- Ensure school principals provide the necessary oversight of ASB activities.

District's Response

The District concurs with this finding. The District is committed to holding staff accountable to District policies and procedures.

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

WAC 392-138-210: Nonassociated student body private moneys – Disbursement approval – Total disbursements.

Nonassociated student body private moneys shall be disbursed subject to the following conditions:

- (1) If such funds are held in trust within the associated student body fund, they shall be budgeted pursuant to WAC 392-138-013 (1)(d). No disbursements shall be made except as provided for in the budget approved pursuant to WAC 392-138-110. All disbursements shall have the prior written approval of the associated student body or such other authority designated in school district policy or procedures;
- (2) If such funds are held in a trust fund, they are not budgeted. Disbursements shall occur only upon presentation of properly prepared vouchers in such format and design as the central district office shall prescribe, and as provided for in subsection (3) of this section;
- (3) Vouchers authorizing disbursements shall be accompanied by written evidence of approval of disbursement by the associated student body or other authority designated in the school district's policies and procedures;
- (4) Disbursements shall be made only for the intended purposes pursuant to WAC 392-138-200.

RCW 28A.325.030: Associated student body program fund - Fund-raising activities - Nonassociated student body program fund moneys, states in part:

(2) Subject to applicable school board policies, student groups may conduct fund-raising activities, including but not limited to soliciting donations, in their private capacities for the purpose of generating nonassociated student body fund moneys. The school board policy shall include provisions to ensure appropriate accountability for these funds. Nonassociated student body program fund moneys generated and received by students for private purposes to use for scholarship, student exchange, and/or charitable purposes shall be held in trust in one or more separate accounts within an associated student body program fund and be disbursed for such purposes as the student group conducting the fund-raising activity shall determine: PROVIDED, That the school district shall either withhold an amount from such moneys as will pay the district for its direct costs in providing the service or otherwise be compensated for its cost for such service. Nonassociated student body program fund moneys shall not be deemed public moneys under section 7, Article VIII of the state Constitution. Notice shall be given identifying the intended use of the proceeds. The notice shall also state that the proceeds are nonassociated student body funds to be held in trust by the school district exclusively for the intended purpose. "Charitable purpose" under this section does not include any activity related to assisting a campaign for election of a person to an office or for the promotion or opposition to a ballot proposition.

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

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.

Schedule of Audit Findings and Responses

Seattle School District No. 1 King County June 29, 2011

3. **The District paid \$36,000 for charges that were unsupported, overbilled and outside the scope of a contract.**

Background

On February 23, 2011, the State Auditor's Office issued a report on the District's Regional Small Business Development Program. The report identified that the District paid vendors \$1,519,965 for services with a questionable public purpose and \$280,005 for services it did not receive or that benefitted a private company.

After that report was issued, we asked the District if it had other contracts with vendors noted during our investigation of the small business program. From the District's list of personal services contracts, we identified two vendors who had come up during the investigation. We found one of those vendors had a current contract to conduct student disciplinary hearings, but had not been paid through the small business program. We examined payments to this vendor for the disciplinary hearings and determined that they were supported with sufficient documentation to determine the valid public purpose and the benefit to the District. We found the other vendor had been paid through the small business program and had a separate, unrelated \$80,000 contract for a tutoring and mentoring program at Cleveland High School. Through March 2011, the District had paid \$36,000 on this contract.

Description of Condition

In reviewing the payments for this contract, we found an Executive Director of Education approved invoices that lacked sufficient detail to show they were for a valid District purpose; were for services within the scope of contract and were not overbillings. The Education Director also allowed the vendor to provide services before the contract was signed and approved by all appropriate District officials. He stated in the contract file that procedures were not followed because the approval/routing sheet had been held up in the Accounting Department. The District's Chief Financial Officer's signature is required on contracts greater than \$75,000. That did not occur until December 8, 2010, after the work had begun.

We found the invoices included hours spent on activities not related to Cleveland's program and services outside the scope of the District-approved contract, such as a tutoring and mentoring program funded by private organizations at another school.

We also found the vendor billed the District for the same amount each month, dividing the contract total of \$80,000 into 10 equal installments of \$8,000, regardless of the number of hours spent working on District activities. From December 2010 to March 2011, the Education Director approved invoices that were supported only by a line-item description and that showed a lump sum. The District paid these invoices even though

they lacked details such as the number of hours worked during the invoice period, billing rate and the number of students served. The District needs these details to ensure the payments are for a valid purpose.

In February 2011, the Education Director asked the vendor to include more details on future invoices. The March and April 2011 invoices included more details than in previous months. The Education Director explained his review process is to call the school principal and ask whether the vendor is providing services. However, the school principal stated no one calls her with questions related to the billings.

We discussed the changes with the Education Director and asked him why the invoices for March and April were for the same amount, but the number of hours billed had increased from March to April. He stated he could not explain the differences even though he approved the payments.

On April 26, 2011, we met with District management to discuss what we found. The District requested additional documentation from the vendor to support the charges. On May 13, 2011, the vendor provided the District with an updated invoice for April 2011 and a detailed expense report that supported the invoice. The invoice amount decreased from \$8,000 to \$5,468, evidencing the original invoice amount was unsupported, included over-billings and the Education Director had been approving and paying invoices that include charges unrelated to Cleveland's program. The District has requested that the vendor provide the same level of detail for previous billings dating back to December 2010.

Cause of Condition

District management did not establish adequate internal controls to ensure staff approve invoices only after reviewing sufficient detail showing charges are reasonable, within the scope of the contract and benefit the District.

The Education Director circumvented internal controls, and his review of invoices was inadequate.

Effect of Condition

When District procurement procedures are circumvented, District resources are placed at risk for misappropriation. Furthermore, citizens may lose confidence in the District's ability to manage public resources if the identified conditions continue. Moreover, the District incurred expenses for which it did not receive benefit.

Recommendation

We recommend the District:

- Obtain sufficient, detailed documentation that supports the business purpose of charges to the District before paying vendor invoices.
- Establish an additional layer of review for payments on personal service contracts.

- Evaluate contract prices, such as hourly rates, to ensure contracts are not negotiated at excessive rates.
- Provide training to District program managers to ensure an effective review of vendor invoices for reasonableness and accuracy before payments are made.

District's Response

The District concurs with this finding. The District has terminated the contract in question and has frozen all payments to this vendor until detailed previous billing is submitted and reviewed which allows validation of invoiced amounts. Should this review show that over-payments occurred; the District will be pursuing a refund of funds.

The District is in the process of finalizing detailed invoice standards to strengthen internal controls. These standards will become effective September 1, 2011. Both contractors and district employees will be trained on the new standards starting this summer.

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 42.24.080 states, in part:

Municipal corporations and political subdivisions--Claims against for contractual purposes--Auditing and payment--Forms--Authentication and certification.

(1) All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision. Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered, the labor performed as described, or that any advance payment is due and payable pursuant to a contract or is available as an option for full or partial fulfillment of a contractual obligation, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision. No claim shall be paid without such authentication and certification."

Schedule of Audit Findings and Responses

Seattle School District No. 1
King County
June 29, 2011

4. **The District does not have sufficient policies and controls for the Science, Technology, Engineering and Math (STEM) computer program to ensure laptops issued to students are safeguarded. The District also is not recovering the costs to replace lost or stolen laptops.**

Background

The STEM computer program is a project-based learning environment at Cleveland High School which started in fiscal year 2011. During the first year, the program includes ninth and tenth grade students. The District plans to include eleventh graders in fiscal year 2012 and twelfth graders in fiscal year 2013. The District purchased 440 laptops for approximately \$479,000 (\$1,089 each) and issued 385 computers to students during fiscal year 2011.

Before the laptops were issued, the parent or guardian and student were required to sign a form verifying that they had read the program handbook. The handbook states that the parent/guardian and the student **could be** held responsible for the cost of repair or replacement, should the laptop be damaged or lost. However, the contract states that the parent/guardian and the student **will be** held financially responsible for the cost of repair or replacement, should the laptop be damaged or lost. The two documents are contradictory. The District makes determinations on responsibility on a case-by-case basis.

The laptops have tracking software installed. The District contracts with a company that specializes in activating this software to try and locate missing computers. If the company does not find a computer within 60 days, it may reimburse the District up to \$1,000.

Description of Condition

During our audit we found:

- Thirty one laptops, totaling \$33,759, or seven percent of the computers purchased for the program, have been reported missing. Of these, the loss of 13 was not reported to our Office in a timely manner. State law requires the District to immediately report all known or suspected losses to our Office.
- The District requires a \$100 deposit to help cover costs for damages and missing computers. It waived these deposits for 283 or 76.28 percent of the laptops, based on students' free or reduced-price lunch status.

- As of March 1, 2011 the company approved reimbursement totaling \$1,600 for two computers it could not locate.
- Twelve of the 30 students who reported missing computers have received new ones without paying replacement costs or a deposit for the new computer. One of these students lost the second computer issued.
- One out of 22 students tested did not sign the “Parent/Guardian and Student Laptop Responsibility Contract and Consent” form.
- Two laptops issued to students were not recorded in the school’s tracking system. The laptops were added after we brought this to the school’s attention.
- District staff told us that the District does not plan to seek replacement costs from parents or students since it is paid by the company when it finds the computers.

Cause of Condition

School staff is not aware of the requirement to immediately report missing computers to District management so they can report to our Office.

The District has made a policy decision to not hold parents, guardians or students responsible for the cost of missing laptops as required by the consent forms. The District is not collecting proceeds timely from the service guarantee for laptops not located within 60 days.

Effect of Condition

District property has been lost or misappropriated and the District has not recovered it or sought replacement costs as required by contracts. The District will not receive enough money to sustain the program if it does not hold parents, guardians or students responsible for replacing laptops. The money the District receives from the company is insufficient to cover the costs of purchasing a new laptop.

Recommendation

We recommend the District:

- Monitor to ensure laptops are safeguarded.
- Provide training and communication to students about safeguarding District property.
- Collect replacement costs for the lost or stolen laptop from either the parent, guardians, students or the company.
- Correct the differences between the handbook and the contract to clarify that the parent/guardian and student *will* be financially responsible to the extent the District is not reimbursed by the company.

District's Response

The district concurs with the finding. The district has already been implementing changes to address many of the conditions included in this finding.

- *Process changes were implemented in January to make sure losses are reported in a timely manner.*
- *Both school staff and central Instructional Technology staff have provided trainings to CHS staff and students around safeguarding computers.*
- *The district has a contract with CompuTrace to recover either lost or stolen laptops or to obtain reimbursement for the market cost of the machines. As of March 31, CompuTrace has reimbursed the district almost \$7000 for six (6) unrecoverable laptops. Additional reimbursements are on-going.*
- *The district has begun the process of allowing charging of students/families for the difference between what CompuTrace reimburses and the original price of the laptop including tax. This will require changes to the handbook, laptop release form and the parent/guardian & student laptop responsibility contract. These changes will remove contradictory language currently existing.*

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 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.

Accounting Manual for Public School Districts, Chapter 3 – Accounting Guidelines, 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.

Status of Prior Audit Findings

Seattle School District No. 1 King County June 29, 2011

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 comply with state law on recording meeting minutes and making them available to the public.**

Report No. 1003871, dated June 21, 2010

Background

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.

Status

The condition reported during the 2009 audit has been resolved. All meetings that have a quorum of board members to discuss district business are treated as a special or regular meeting. The District now takes meeting minutes for board retreats and workshops, and posts them on-line.

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.**

Report No. 1003871, dated June 21, 2010

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.

Status

The District has partially corrected the issues noted in this finding. In the summer of 2010, the District changed procedures for reporting losses to our Office. Reporting of losses to our Office has been assigned to the Accounting Manager.

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

Report No. 1003871, dated June 21, 2010

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*.

Status

The condition reported during the 2009 audit has been resolved. District staff in Accounting, Budget and Payroll attended WASBO training on the State Accounting Manual for schools. Moreover, as part of the closing process, the Accounting department examines capital transactions for appropriate categorization.

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

Report No. 1003871, dated June 21, 2010

Background

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.

Status

The condition reported during the 2009 audit has been resolved. In September 2009, the Payroll department was again consolidated into a single department and placed in Finance to allow for standardized controls. A series of audits and queries were

implemented during the 2009-2010 school year to identify manual entry errors. Internal training with Human Resources analysts and payroll staff has occurred and audit reports were developed and implemented for Human Resources and Payroll.

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.

Report No. 1003871, dated June 21, 2010

Background

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's staff carries 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.

Status

The District has partially corrected the internal control weaknesses noted in this finding. For example:

- District procedures were modified in the fall of 2009 to ensure compliance with the Open Public Meetings Act, including documenting the occurrence of executive sessions and noting the presence of counsel. Minutes of regular and special meetings are retained as required.
- In October 2009, the Executive Director of Finance distributed guidance on personal service contracts to all central managers.
- The receipting and payment processes have been streamlined to ensure timely review and payment of purchases made through District procurement cards. New procurement cards were issued in the fall of 2010, and Memorandums of Understanding are on file in Accounting for all cards issued.
- Building staff were notified in September 2010 of the importance of proper records retention. Accounting communicated these requirements for ASB and rental records and will do this on an on-going basis.



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.

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