



Special Message from State Auditor Pat McCarthy

McCarthy's Corner



Schools across Washington have had to be nimble in the midst of unprecedented change in the past few months. We at the Office of the Washington State Auditor are doing our best to adapt as well, including introducing this new, digital-first edition of the Audit Connection newsletter.

Last fall, we heard from you that collecting school-specific information into a schools-focused edition of the newsletter was helpful. Since we won't be meeting in-person this spring, we decided to make this edition even more helpful by creating something that you

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Next School Year, Audits Will Examine McCleary Requirements for Local Funds

On April 24, 2018, the State Auditor's Office and the Office of Superintendent of Public Instruction (OSPI) issued a notice about the effective dates of the accounting and audit requirements contained in Enhanced Second Substitute Senate Bill 6362 (E2SSB 6362), which was adopted in response to the McCleary litigation and brought new requirements related to tracking local revenue expenditures.

For the 2019-20 school year, our Office will conduct audits for compliance with statutory requirements contained in E2SSB 6362, as detailed below.

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Sub-fund accounting in the General Fund

Separate accounting of state and local revenues, and local revenues to expenditures, is required. School districts may use local revenues only for documented and demonstrated enrichment of the state’s statutory program of Basic Education, as authorized in RCW 28A.150.276.

Local revenues means: enrichment levies collected under RCW 84.52.053; local effort assistance funding received under RCW 28A.500; and other school district local revenues including but not limited to grants, donations, and state and federal payments in lieu of taxes. Revenue subsidiary accounts for the General Fund are listed by sub-fund in Chapter 5 of the School District Accounting Manual.

Enrichment activities are those that go beyond the state minimum instructional offerings. This includes:

- Additional staff for class-size reduction beyond class sizes allocated in the prototypical school model
- Additional staff beyond the staffing ratios allocated in the prototypical school formula
- Any additional salary costs attributable to the provision or administration of the enrichment activities allowed
- Additional activities or enhancements that OSPI determines to be a documented and demonstrated enrichment of the state’s statutory program of Basic Education and for which the Superintendent approves proposed expenditures during the pre-ballot approval process

Supplemental Contracts

Supplemental contracts are for services beyond the Basic Education program required by Article IX, Section 1 of the state Constitution and RCW 28A.150.220. Beginning September 1, 2019, supplemental contracts for certificated instructional staff are only for enrichment activities as defined by RCW 28A.150.276.

For a time based supplemental contract, the hourly rate paid to the instructional staff may not exceed the hourly rate provided to the staff for the basic education salary. For a supplemental contract that is not time based, the contract must document the additional duties, responsibilities, or incentives that are being funded in the contract.

Enrichment Levy Expenditure Plan

Beginning in January 2020, before a school district may submit an enrichment levy to the voters, it must receive approval from OSPI for its expenditure plan (RCW 28A.150.276).

When submitting a levy expenditure plan to OSPI, districts must provide Basic Education assurances, which include complying with staffing ratios for Basic Education certificated instructional staff and minimum instructional requirements.

OSPI may approve a spending plan only if it determines that the enrichment levy and other local revenues will be used solely for permitted enrichment activities.

State Allocation for Professional Learning

The state allocation for professional learning must be used solely for providing professional learning. The three primary purposes for professional learning are:

- Individual improvement aligned with individual goals
- School and team improvement aligned with school and team improvement goals
- Program implementation aligned with state, districts, and school improvement goals and initiatives

SAO will audit to ensure compliance with the limitations and conditions defined in statute. (RCW 28A.415.430, RCW 28A.415.432, and RCW 28A.415.434)

State Appropriation for Learning Assistance Program

All funds appropriated for the learning assistance program (LAP) must be spent for LAP purposes. Program activities include:

- Extended learning time before or after the regular school day
- Professional development for certificated and classified staff who focus on literacy and mathematics content and instructional strategies.

A district may use up to 5 percent of its LAP allocation for development of partnerships with community-based organizations. The school board must approve in an open meeting any community-based engagement. (RCW 28A.165.002 through RCW 28A.165.065)

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can read online or in a virtual conference, as well as download and print.

Inside, you'll find important updates and resources that I hope you will find useful. We're committed to staying in communication with our partners throughout the coronavirus crisis.

I wanted to share in this space the guidance we've given all local governments as they navigate the uncharted waters of this pandemic.

On any activities or purchases related to the preservation of public health and promotion of public welfare:

- First consult your policies and then seek legal advice from your attorney.
- Consider whether a policy adjustment is necessary before taking the proposed action.
- Fully document your analysis and evaluation to support the action or decision taken.
- Account for coronavirus-related expenditures and revenues in your accounting systems, ensuring they can be separately identified.

I often shorten this guidance to three words:
Document, document, document!

Finally, let me say that I am heartened by the can-do spirit I see in our schools and our state. We may not be

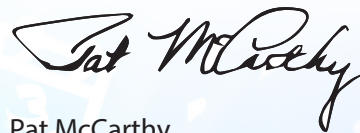
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coming together the same way we used to, but we are coming together virtually for meetings, trainings and conferences. We are still getting our jobs done for the communities we serve.

Thank you for all your hard work, and we will stay in touch!



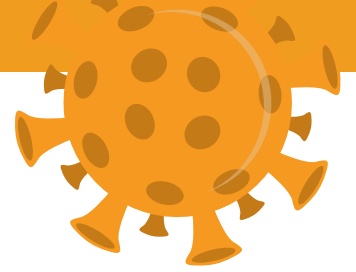
Pat McCarthy

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AUDIT

SAO, OSPI Offer Guidance on COVID-19 Issues



The coronavirus pandemic has made work processes and obligations more complex and difficult for everyone, including schools and school districts. We have received many questions, including from many of you in education, about how this situation affects financial reporting requirements. Here is some guidance about how to navigate this situation.

Subsequent event

On April 6, Gov. Inslee extended the closure of school districts in Washington through the end of the school year. For financial reporting purposes, the COVID 19 situation is a subsequent event, which needs to be disclosed in the notes to the 2018-19 financial statements for school district audit reports being issued now. A subsequent event is a significant event that occurs after fiscal year end, but before the financial statements have been issued.

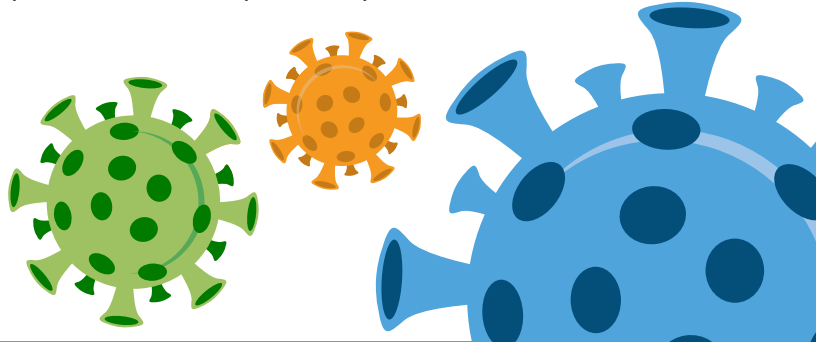
The note that must be added to the financial statement is available on the website of the Office of Superintendent of Public Instruction (OSPI): www.k12.wa.us/sites/default/files/public/communications/Subsequent%20Event%20Note%20Disclosure_COVID19.docx

Grant management

On April 15, OSPI issued a bulletin with grant management guidance regarding the federally approved OSPI waivers for fiscal year 2020, which can be found on the OSPI website at: https://www.k12.wa.us/sites/default/files/public/bulletinsmemos/bulletins2020/7_Guidance%20for%20Long-term%20School%20Closures%20as%20of%20April%2015.pdf

OSPI also has a COVID-19 webpage that provides guidance on a number of issues relating to the pandemic: www.k12.wa.us/about-ospi/press-releases/novel-coronavirus-covid-19-guidance-resources.

We continue to monitor the situation and will keep you apprised of any further developments. If you have questions not answered by these resources, please submit a help desk request.



Collaboration with OSPI to Reduce Audit Findings on High School Graduation Rates

Great news!

The Department of Education agrees that materiality matters when auditing high school graduation rates. This is likely to mean many fewer findings related to Title I matters in future audits.

Last year, we initiated discussions with the Office of Superintendent of Public Instruction regarding reporting expectations for noncompliance with the high school graduation rate compliance requirement. In response, OSPI consulted with the Department of Education single audit key management liaison for Title I.

After several rounds of conversations, OSPI shared the

Department of Education's expectation that auditors evaluate materiality of issues against the regulatory cohort, because only issues that actually impact the cohort would be expected to be reported as findings.

We have updated our Title I audit testing strategy and added a template for auditors to use to evaluate errors against the cohort. We expect this will result in significantly fewer findings related to Title I.

We would be expected to report documentation issues (such as none or insufficient documentation to support a transfer) as a management letter or exit item as appropriate if the noncompliance isn't material to the cohort.

New Resources for Schools Coming Soon

The Center for Government Innovation, a service to local governments provided by the Washington State Auditor's Office, has been working hard to bring some new resources to local governments, including school districts. We'd like to tell you about what's on the near horizon to be published!

New cash receipting guide

This new resource includes a suite of short, 1-2 page resources for different roles and topics. This guide has something for you, whether you are:

- A leader developing a policy or looking for ways to save time and money over cash receipting operations, or
- A manager hoping to reduce risk in your cash receipting operations, or
- A supervisor looking to improve monitoring over deposits, or
- A cashier responsible for handling the money

For each role and objective, we have best practices to share based on our audit results and extensive research in this area.

We have found a fun new way to present this information, too, so we hope you check it out and let us know what you think!

New bid law resources

First, we'll be publishing a Bid Law Basics Guide – this provides information on a variety of topics related to public bidding that will be available for any local government to use. Though bid laws vary by government type, this guide talks about the common aspects and directs you to additional resources if you'd like more information. It includes valuable appendices to help you look up requirements unique to your government type as well.



Also new is a Responsible Bidder Checklist to help you make sure your bidders meet "responsibility criteria," as required by state law. This can be a complex area to evaluate, so our checklist will be a great tool for you! It also includes some answers to frequently asked questions on this topic.

Updated financial statement checklist

Each fall, we update the Checklist for Reviewing Financial Statement Reporting for School Districts. It is located on our online Resources Database, and our plan is to have it refreshed again by September 1. You can find the most current version of this resource here: portal.sao.wa.gov/PerformanceCenter/#/address?mid=6&rid=18515

Make sure you're signed up

Do you want to know as soon as we have these resources available for you? Make sure you opt in to receive notifications from the Center for Government Innovation by signing up here: portal.sao.wa.gov/SubscriptionServices/Signup.aspx

Check out our Resources Database

If you haven't signed up to receive notifications, you can always view all of our free resources in our online database. We have a lot of great resources to share, so take a few minutes to see what we have to offer! View our Resources Database here:

portal.sao.wa.gov/PerformanceCenter/

Contact us

If you'd like to reach out to us with questions or feedback, feel free to email us at Center@sao.wa.gov. We'd love to hear from you!



ESD Template Notes Being Prepared

The State Auditor's Office is working with the Office of Superintendent of Public Instruction (OSPI) and the Educational Service District (ESD) Fiscal Officers Committee to develop template notes for the fiscal year 2020 ESD financial statements.

Our goal is to have the template notes for ESDs posted to the BARS Reporting Templates page of SAO's website in October 2020.

ESDs represented on committee

We are also looking forward to having a representative of the ESDs on the Local Government Advisory

Committee, working with representatives from all other types of local governments.

The committee makes recommendations to the Legislature and responds when lawmakers change policies that affect the Budgeting, Accounting and Reporting Systems (BARS) Manual. The Committee reviews state and federal legislation and proposed changes from the Governmental Accounting Standards Board (GASB). The Committee also advises our Office on issues relating to the financial reporting system for cities and counties.

Performance Audits Look into Mainstreaming, Behavioral Health

The State Auditor's Office is currently conducting one performance audit that examines school district practices, and will start another later this year. Below we describe each audit and when we expect to publish our reports.

Prevention and Early Intervention in Student Behavioral Health

Half of those who have a mental health disorder show symptoms by age 14. If not addressed, these problems can interfere with a student's learning and ability to form friendships, increase risky behaviors and contribute to disciplinary problems. A 2016 survey and recent audits show an increased need for access to mental health services for school-aged children.

This audit examines how state agencies and school districts can better identify and connect these students with the services they need. The audit also examines how agencies and districts can improve the coordination of these services and reduce the barriers to accessing them to achieve better outcomes.

We plan to publish this audit report in spring 2021.

If you have questions about this audit, please contact Carolyn Cato at Carolyn.Cato@sao.wa.gov.

Statewide survey of districts and schools

As part of this audit, we will soon send an online survey to a selection of district superintendents and school principals, asking how student behavioral health issues affect Washington's schools. The survey also asks about school services and supports that help address student mental health and substance abuse issues.

If your school or district receives a survey, we encourage you to respond. Survey results will help auditors develop recommendations to guide state and local officials as they consider ways to help schools support students with behavioral health needs.

Mainstreaming Special Education students

Nearly 14 percent of all students receive special education services. The U.S. Department of Education has recently emphasized the need for districts to better mainstream special education students. Legislators and educators are concerned about the effect of mainstreaming on the quality and quantity of special education services.

This audit will examine how school districts' efforts to mainstream special education students have affected the quality and quantity of services provided to these

students. The audit's recommendations would help districts maintain the quality and quantity of these services as they push to mainstream.

We plan to start this performance audit in late 2020. Once we have chosen the school districts to include in the audit, we will contact the selected districts and share more about the audit and its focus. We plan to publish this audit report in late 2021 or early 2022.

If you have questions about this audit, please contact Chris Cortines at Christopher.Cortines@sao.wa.gov.

Some Auditors Have New Phone Numbers

In February, several phone numbers for the Office of the Washington State Auditor changed.

Staff who work in our Olympia offices, including members of Team School Programs, have new numbers, using a new area code (564) and prefix (999) that are new to Western Washington.

Phone numbers for auditors who work with schools and school districts are shown below.

- **Mark Rapozo**, Assistant Director for Local Audit: (564) 999-0794
- **Cheryl Thresher**, Audit Manager: (564) 999-0862
- **Ryan Montgomery**, Assistant Audit Manager: (253) 372-6250
- **Shirley Christiansen**, Assistant Audit Manager: (564) 999-0858
- **Sara Heath**, Assistant Audit Manager: (564) 999-0861

- **Kim Del Castillo**, Auditor: (564) 999-0859
- **Erika Kmiecik**, Auditor: (253) 677-0552
- **Melissa Ritter-Maylone**, Auditor: (253) 677-0654
- **Dietrich Varez**, Auditor: (564) 999-0860

For the next year, when you call a number that has changed, you will hear a message giving you the new phone number and offering to transfer you. Additionally, emails you receive from SAO staff include the new numbers in their signature line, so you can update your contacts as needed.

Finally, our new main line number is: (564) 999-0950.

If you have any questions or concerns, please contact your audit liaison or email webmaster@sao.wa.gov.

