

Washington State Auditor's Office
Accountability Audit Report

Seattle School District No. 1
King County

Report Date
June 18, 2013

Report No. 1010005

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June 24, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

June 24, 2013

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,

TROY KELLEY
STATE AUDITOR

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King County
June 18, 2013

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Audit Summary

Seattle School District No. 1
King County
June 18, 2013

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Seattle School District No. 1 from September 1, 2011 through August 31, 2012.

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:

- Payroll
- Public works contracting
- Personal services contracting
- Open Public Meetings Act
- Facilities usage
- Staff mix
- Human Resources

RESULTS

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

However, we identified a condition significant enough to report as a finding:

- The District lacks adequate internal controls to ensure that it collects all revenue for facilities usage.

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 18, 2013**

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:

- The District's internal controls continue to be inadequate to ensure compliance with eligibility requirements for its Indian Education program.
- The District does not have adequate internal controls to ensure federal grant funds are used to pay only for allowable costs.

Description of the District

Seattle School District No. 1 King County June 18, 2013

ABOUT THE DISTRICT

Seattle School District No. 1 serves more than 47,000 students and operates 12 high schools, 10 middle schools, 59 elementary schools, 10 kindergarten through eighth grade schools and six alternative schools and special programs.

District activities are monitored by an elected, seven-member Board of Directors. The Board oversees governance of the District and appoints a Superintendent to oversee District operations. The District had operating budgets of \$566 million for the 2010-2011 school year and \$577 million for the 2011-2012 school year.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Directors:

District 1	Sharon Peaslee
District 2	Sherry Carr
District 3	Harium Martin-Morris
District 4	Michael DeBell
District 5	Kay Smith-Blum
District 6	Marty McLaren
District 7	Betty Patu

APPOINTED OFFICIALS

Superintendent	José Banda
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DISTRICT CONTACT INFORMATION

Address:	Seattle School District No. 1 P.O. Box 34165 Seattle, WA 98124-1165
Phone:	(206) 252-0274
Website:	www.seattleschools.org

AUDIT HISTORY

We audit the District annually. The past five audits reported the following:

- In the 2007 audit, we reported four findings, two of which were in the report of financial statements and federal single audit. Internal controls over payroll continued 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 continued 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 continued 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 was complying with state law and its own policies.
- In the 2010 audit, we reported seven findings, three of which were in the report of financial statements and federal single audit. We reported findings for not establishing sufficient policies and controls for the Science, Technology, Engineering and Math computer program to ensure laptops issued to students were safeguarded, paying \$36,000 for charges that were unsupported, overbilled, and outside the scope of a contract and inadequate internal controls over Associated Student Body activities.
- In the 2011 audit, we reported seven findings, three of which were in the report of financial statements and federal single audit. We reported findings for charging salaries in the incorrect program or fund. We also reported findings for not monitoring fleet purchases, vehicle use and fuel card use, and inadequate controls over fleet assets and maintenance tools.

Schedule of Audit Findings and Responses

Seattle School District No. 1 King County June 18, 2013

1. The District lacks adequate internal controls to ensure that it collects all revenue for facilities usage.

Description of Condition

During the current school year, the District established a new online scheduling system to make rentals of District facilities more efficient. The District requires schools to use the system for booking events at District facilities.

Before outside organizations can use District facilities, they must submit an application through the online system. If approved, the outside organization can request a facility to rent at a school. The Building Rentals Office (rentals office) is responsible for collecting the required insurance and concussion management compliance documentation, issuing permits for facilities usage and invoicing outside organizations that are required to pay. The rentals office is also responsible for training school-level employees how to use the online system and inform them of the District's requirements to submit all "school related" events through the system, as well as refer outside organizations' facilities usage requests to the rentals office.

In addition, the rentals office is responsible for monitoring the Joint Facilities Usage Agreement (JUA) with the local parks department. As part of the agreement, the District and the city parks department agreed to use fees established in a Memorandum of Agreement (MOA) for nonjoint usage fees by city parks programs that use Memorial Stadium and District Athletics Complexes. The MOA requires the city parks department to collect lighting fees and youth and adult field usage fees for practices and games at District facilities.

We reviewed the District's policies and procedures related to facilities usage. During our review, we noted the following concerns:

- The rentals office cannot demonstrate they are invoicing for facilities usage as required by District policy. From September 1, 2012 through April 30, 2013, we determined the rentals office did not bill for 2,432 events, or approximately 9,000 hours of usage. The District charges between \$8.00 and \$88.90 per hour for rent of District facilities. Events may require additional fees for custodial, security and utility usage. These fees range from \$47.00 to \$73.85 per hour. Although we cannot quantify the amount of uncollected revenue, we believe that revenue is substantial.
- The rentals office generated 261 invoices totaling \$223,213 from September 1, 2012 to April 30, 2013, of which \$102,913 is past due. The average period of delinquency for these invoices is 115 days. The rentals office is not monitoring

these past due accounts, nor is it sending delinquent accounts to collections. We were unable to identify the actual amount of past due invoices prior to September 1, 2012 due to lack of records.

- We found three instances where school staff circumvented District policies and procedures by disguising events as internal activities when in fact the events were outside organizations using the facilities. These outside organizations were not billed according to District policy. We estimate the District lost \$45,000 in applicable fees for these events.
- The rentals office is not collecting insurance and concussion management compliance documentation, as required. This potentially increases the District's liability if a death, concussion or other injury occurs on District property.
- The rentals office could not demonstrate it trained school level employees, responsible for scheduling events, regarding the new online system and policies and procedures. We found only 71 employees, representing 51 out of 97 schools, received training on the new system. Moreover, 33 percent of the schools we tested were not using the system for scheduling all events, as required.

We also reviewed the District's policies and procedures related to the JUA and the MOA. During our review, we noted the following concerns:

- The District does not have controls in place to ensure it is receiving all fees associated with the JUA and MOA. The District received \$1.8 million in adult usage and lighting fee payments from 2006 to 2011 from the city parks department. However, the District relied on the parks department to document and quantify how much revenue the District should receive. The District never invoiced the parks department and the District did not receive supporting documentation demonstrating the completeness of that revenue until 2011. However, the District is unsure of the accuracy of that documentation. District staff believes the city did not submit all fee revenue to the District and it estimates the overall uncollected amount of fees from the city parks department is between \$400,000 and \$820,000 from 2005 to 2011. However, we cannot confirm these amounts due to the lack of supporting documentation and the inability of the District to provide any further analysis demonstrating how it calculated the estimates.
- According to the JUA, the District is required to maintain records of costs associated with joint-use programming to ensure the agreement is fair and equitable. Although the District is maintaining these records, it is not performing an analysis to ensure the agreement is fair and equitable because the city parks department is not maintaining records of costs associated with the JUA, as required.

Recommendation

We recommend the District:

- Ensure District staff follows the facilities usage policies and procedures.
- Train staff responsible for the scheduling and approving of events in the new system.
- Monitor past-due invoices, and send delinquent accounts to collections.
- Ensure source documentation is received monthly from the City parks department and reconcile that documentation to the District's calculations of what is due, to ensure all fees associated with agreement are collected.
- Monitor the Joint Facilities Usage Agreement to ensure the City is maintaining all required information, and to determine if it is fair and equitable for the District.

District Response

The District provides the following information related to the findings of this audit:

The District concurs with this finding. Past due invoices will be better monitored. A new report has been designed to allow management review of billings and past due invoices. This report will be reviewed monthly and forwarded to Accounting where past due accounts billing and collections will be administered by Accounts Receivable.

Additional trainings will be provided for all staff during the summer and as part of school startup on facilities usage policies and procedures and scheduling events. Facilities will initiate a report to users when there is a compliance issue. This will help educate staff in proper procedures, as well as inform management.

A system change has been made to allow schools and other users to make changes in permits. Since the startup of the system in September 2011, central staff has been required to process all permit changes. School staff will now be able to make the changes online instead of communicating this via email to central. This will alleviate workload at central, which will allow more focus on current invoicing. Additional resources were provided to Building Rentals to eliminate the backlog of invoicing.

The District will continue maintaining the required cost records associated with the Joint Facilities Usage Agreement with the city parks department. The District will continue to request the parks department's records and will document requests, to ensure there is a fair and equitable distribution to the District.

Applicable Laws and Regulations

When performing our audit we considered the following:

Accounting Manual for School Districts, Chapter 3, Accounting Guidelines, Internal Control Structure.

RCW 28A.600.190, Youth sports — Concussion and head injury guidelines — Injured athlete restrictions — Short title.

RCW 4.24.660, Liability of School Districts Under Contracts with Youth Programs.

An Agreement for the Joint Use of Facilities between the Seattle School District No.1 and Seattle Parks and Recreation.

City of Seattle – Parks and Recreation and Seattle Public Schools: Agreement on the Collection and Distribution of Athletic Field Fees.

Status of Prior Audit Findings

Seattle School District No. 1 King County June 18, 2013

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

- 1. The District charged salaries in the incorrect program or fund resulting in ineligible capital expenditures and an increased risk of inappropriate special education funding.**

Report No. 1007982, dated June 27, 2012

Background

Capital Projects Fund

We found the District did not have documentation to support salary percentages charged to the Capital Projects Fund. We also found salaries for several staff positions charged to the fund that did not appear to benefit capital projects. For example, the District charged the property manager's, computer maintenance staff and 50 percent of a nurse's salary to the Capital Projects Fund.

State Special Education Program

We selected six high schools, four middle schools and two kindergarten through eighth grade schools for review based on schools identified in a citizen concern and schools with the largest state special education budgets. We identified employees at these schools paid with state special education funds to determine if they were teaching special education or general education courses.

We determined salaries and benefits were charged to the correct program except for Ballard High School. We identified four teachers at Ballard High School whose full salaries were charged to the state special education program when they taught approximately one-half special education courses and one-half general education courses. The District should have recorded 50 percent of these salaries in the state Special Education Program instead of 100 percent.

Status

The District has only partially corrected the internal control weakness noted in this finding due in part to the timing of the issuance of our audit report in relation to the District's budget development cycle. Prior to closing fiscal year 2011-2012, the Accounting Manager reviewed salaries charged to the Capital Projects Fund for appropriateness and made the necessary adjustments. The 2011-2012 coding of the Ballard High School teachers was partially adjusted to reflect the proper program.

Additional adjustments are being made in fiscal year 2012-2013 to complete the correction so that special education and general education expenditures are properly reflected.

2. **District management does not adequately monitor fleet purchases, vehicle use, fuel card use and inventory procedures to ensure state law and District policies are followed, resulting in misuse by employees.**

Report No. 1007982, dated June 27, 2012

Background

Grant funded vehicle purchase

A manager of international education disregarded District purchasing procedures and used \$5,000 in private grant money to purchase a vehicle for a private individual.

Vehicle use

We randomly selected and reviewed the use of five District fleet vehicles and found the use of three did not comply with District policies.

Fuel card use

We examined fuel card purchases and noted the District does not provide any oversight to ensure employees are following fuel card policies and procedures.

Fleet inventory

We determined the District does not perform inventory procedures to account for the fleet, as required by state law and District policy, or to ensure vehicles it purchases are added to the inventory. Additionally, Traffic Education's 31 vehicles were not marked with the District's logo when added to the fleet inventory, as required by state law and District policy.

Status

The District has partially corrected the internal control weakness noted in this finding. All vehicle purchases or leases are to go through the Purchasing Department to ensure policy and procedures are followed and the vehicles are properly titled, added to the inventory listing and deployed as intended. This change has been communicated to the Purchasing and Accounts Payable staff. In addition, The District is adding 0.5 FTE to help carry out physical inventory of its equipment, including vehicles.

The District discontinued the Traffic Education program and the 31 vehicles are being redeployed or surplus.

3. **The District lacks adequate controls over its assets, placing them at risk of misappropriation.**

Report No. 1007982, dated June 27, 2012

Background

We reviewed the District's physical inventory, data entry and the accuracy of the asset list. We found controls over inventory procedures were inadequate. In addition, the District is not holding staff accountable for assets assigned to their care.

Status

The District has partially corrected the internal control weakness noted in this finding. The District is adding 0.5 FTE to help carry out physical inventory of its equipment. This additional resource will allow the District to move from a three-year physical inventory cycle for nonfederal-funded equipment to a two-year cycle for all equipment. In addition, delinquencies in certifying the results of the physical inventory report are escalated to the Accounting Manager, direct supervisors, Executive Director of Schools and the Assistant Superintendent of Business and Finance. Targeted trainings are ongoing, as the District recognizes the risks involved with a high number of equipment deployed in a decentralized environment.

4. The District lacks adequate internal controls to manage maintenance tools and equipment, resulting in a \$4,916 gift of public funds.

Report No. 1007982, dated June 27, 2012

Background

Tool insurance expenditures totaled \$19,338 from September 2009 to March 2012. During this time period, five of seven machinists exceeded the \$750 maximum allowed for tool replacement by a total of \$4,916. These expenditures are a gift of public funds. We also determined the remaining \$14,422 did not comply with the terms of the collective bargaining agreement. The District could not provide approved lists of personal tools.

Additionally, our review of expenditures found a former employee purchased \$387 in tools at a local vendor after his termination and the vendor billed the District. The District lacks adequate internal controls to detect that vendors are billing it for purchases by former employees. The District did not report this incident to the police or our Office as a loss, as required by state law.

Status

The District has corrected the control weaknesses noted in this finding. The specific contract provision is now carried out as a reimbursement. Maintenance Department employees seeking reimbursement under this contract provision submit their claim through the Maintenance Department system, allowing adequate review and authorization prior to reimbursement. This change in procedure was communicated to maintenance staff. The District has sent invoices and collected funds that were paid out in error. The Accounting Manager has reviewed procedures surrounding reporting losses to the State Auditor's Office and has made the necessary changes.



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 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 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 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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Mary Leider
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