



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Accountability Audit Report**

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**Washington State School for the Blind**

Audit Period

**July 1, 2012 through June 30, 2013**

**Report No. 1012028**

Issue Date  
**June 5, 2014**



**Washington State Auditor**  
**Troy Kelley**

**Independence • Respect • Integrity**



## Washington State Auditor Troy Kelley

June 5, 2014

Dean Stenehjem, Superintendent  
Washington State School for the Blind  
Vancouver, Washington

### *Report on Accountability*

We appreciate the opportunity to work with the Washington State School for the Blind to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to hold government accountable for the use of public resources so that government can work better, cost less, deliver higher value and earn greater public trust.

A sound and thorough audit protects the interests of the taxpayers by helping identify weaknesses in internal controls and prevent errors and fraud by providing unbiased recommendations, and by saving money.

Please review our report on the School's accountability over local funds. 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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# Audit Summary

## State of Washington Washington State School for the Blind

### ***RESULTS IN BRIEF***

This report contains the results of our independent accountability audit of the Washington State School for the Blind from July 1, 2012 through June 30, 2013.

We found the School lacks internal controls to adequately monitor and account for its local funds. The details regarding this issue are described in the Schedule of Audit Findings and Responses as Finding 1, on page 5 of this report.

### ***INTRODUCTION***

#### **Why we did this audit**

As part of routine audits of state agencies, our Office is responsible for auditing public funds and accounts that are not managed by or in the care of the State Treasurer. These funds are commonly referred to as local funds.

The Legislature has established some of these funds, while others are authorized by the Office of Financial Management, which is allowed by law to establish local funds outside the State Treasury when agencies present compelling reasons to do so.

#### **About the audit**

As of June 30, 2013, the School held more than \$1.6 million in local funds. We evaluated internal controls and performed audit procedures on the activities of the School. We also determined whether the School complied with certain state laws 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. Examples of the questions the audit addressed were:

- Did the Department properly account for its local fund financial activities in the state's financial records?
- Were adequate internal controls in place to safeguard the Department's local funds?
- Were investments of local funds legal?

## ***AUDIT RESULTS***

In most areas, we found the School complied with state laws and policies related to local funds. However, we identified a condition significant enough to report as a finding:

- The School lacks internal controls to adequately monitor and account for its local funds.

The details regarding this issue are described in the Schedule of Audit Findings and Responses as Finding 1, on page 5 of this report.

## ***REPORTING REQUIREMENTS***

Every two years, our Office is required by state law (RCW 43.09.420) to report to the Legislature on the status of local funds and accounts that were examined during the preceding biennium and recommendations we made about how state agencies can improve their financial management of these funds.

Our most recent report covered audit reports published from July 1, 2011 through June 30, 2013.

The next report will cover July 1, 2013 through June 30, 2015 and is due to the Legislature by December 31, 2015.

## Related Reports

### State of Washington Washington State School for the Blind

#### ***FINANCIAL***

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management.

The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at [www.ofm.wa.gov](http://www.ofm.wa.gov).

A summary of the audit can be found at:

[http://www.sao.wa.gov/generalinfo/Documents/2013\\_CAFR\\_Report\\_Final.pdf#search=CAFR](http://www.sao.wa.gov/generalinfo/Documents/2013_CAFR_Report_Final.pdf#search=CAFR)

#### ***FEDERAL PROGRAMS***

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

The report for the fiscal year ending June 30, 2013 can be found at:

<http://www.ofm.wa.gov/singleaudit/2013/default.asp>

## **About the School**

### **State of Washington Washington State School for the Blind**

#### ***ABOUT THE SCHOOL***

The primary purpose of the Washington State School for the Blind is to educate and train visually impaired and blind children (RCW 72.40.010) throughout the state of Washington. The School is unique in the fact that it serves as both a public school and a state agency.

The School provides approximately 600 vision-related services per month, serves over 2,000 individuals per year, and provides online access to curricular materials to over 40,000 people per year. Parts of these services are direct and consultative services to children. The School's requests for services are increasing every year due to change in service delivery, establishment of an excellent working relationship with Local Education Agencies (LEAs), Educational Service Districts (ESDs) and the Washington State Office of Superintendent of Public Instruction (OSPI), and by helping to network resources within Washington State.

#### ***SCHOOL FOR THE BLIND CONTACT INFORMATION***

Address: Washington State School for the Blind  
2214 E. 13th Street  
Vancouver, Washington 98661

Phone: (360) 696-6321

Website: [www.wssb.wa.gov](http://www.wssb.wa.gov)

# Schedule of Audit Findings and Responses

## State of Washington Washington State School for the Blind

- 1. The Washington State School for the Blind lacks internal controls to adequately monitor and account for its local funds.**

### **Background**

The Washington State School for the Blind is a unique entity, in that it acts as both an educational institution and a state agency. The School's primary purpose is to educate and train visually impaired children throughout the state.

As of June 30, 2013, the School held \$725,501 in two local funds: the Betterment Fund and a fund used to operate the Braille Access Center. Local funds are defined as those monies held outside of the state treasury.

The Betterment Fund is used for student activities, programs, events and other student needs. Revenue for the Betterment Fund is collected through donations and fundraising activities. The Braille Access Center is a fee-for-service operation, which provides braille to customers throughout the state.

### **Description of Condition**

#### *Expenditures*

The School did not obtain adequate documentation to support expenditures made from the Betterment Fund. We judgmentally selected 85 transactions, totaling \$75,463 to review and noted the following:

- Twelve transactions for student work experiences were not supported by adequate documentation, such as timesheets. The total amount paid for these transactions was \$2,361.
- Receipts for six transactions were not retained to support payments for student activities. Of these six transactions, four were checks written for cash. The total amount paid for the transactions was \$1,170.

#### *Cost allocation*

The Braille Access Center has six employees whose salaries are paid by various funding sources. The salaries and benefits for these employees totaled \$335,529. Of this amount, \$127,180 (38 percent) was charged to the Braille Access Center. Annually, the School

sends the Department of Enterprise Services an *estimate* of each employee's percentage of time they work on state and federally funded projects in order to allocate its payroll costs.

We found staff does not record the actual time they spent on each activity – only daily totals for staff hours are recorded on timesheets.

*Reconciliation with state financial records*

We found the Betterment Fund bank account balance and general ledger at year-end did not reconcile with state financial records (AFRS). The difference was due to transactions from another fund being posted under the Betterment Fund in AFRS by mistake.

**Cause and Effect**

*Expenditures*

The School does not require verification of student work experience timesheets prior to making payments. Instead, supervisors produce a master spreadsheet with the total amounts to be paid to workers. The master spreadsheet is not adequate to support the payroll expenditures as it does not specify the hours worked or wage paid per hour for each employee.

The School does not always collect receipts for payments made to vendors or when issuing checks for cash out of the Betterment Fund. Because the School is not verifying supporting documentation for issued payments, it cannot ensure that the use of its Betterment funds is allowable.

*Cost allocation*

Since the School does not require employees who are paid from various funding sources to track the actual time spent on each activity, it cannot ensure that estimates for payroll costs are properly allocated and adjusted to actual in the Agency Financial Reporting System (AFRS).

*Reconciliation with state financial records*

The School does not review the entries or adjustments made by Enterprise Services to verify that the local fund balance and general ledger reconciles to AFRS.

A variance of \$3,541 was identified between the local fund balance and AFRS.

The reconciliation of agency local funds to AFRS is required by state policies to ensure Washington State's financial records are accurate and complete.

## Recommendation

We recommend the School:

- Verify student work experience timesheets prior to issuing payments.
- Obtain and review supporting documentation for expenditures to ensure payments are proper.
- Require employees track the actual time spent on various activities. Adjustments to estimated payroll costs should be made to the actual hours worked. This will ensure that each funding source is properly charged.
- Reconcile its local fund accounts to the state financial records on a monthly basis.

## School's Response

Verify student work experience timesheets prior to issuing payments.

*All work experience time sheets will be signed by their supervisor or designee. Business Office personnel will collect all properly signed timesheets and retain as source documentation. The work experience master summary worksheet will be signed by the supervisor and initialed by business office personnel verifying timesheets have been reviewed prior to issuing payment.*

Obtain and review supporting documentation for expenditures to ensure payments are proper.

*The majority of the issue was created when checks were issued to cash. WSSB will only be issuing checks for cash as a last resort and only when another method is not possible and student learning objectives cannot be met. When that occurs, staff will be required to fill out a request form with proper signature authorization. A pending file will be created for those payments and will be reconciled monthly to ensure proper documentation and reconciliation occurs.*

Require employee to track the actual time spent on various activities. Adjustments to estimate payroll costs should be made to the actual hours worked. This will ensure that each funding source is properly charged.

*WSSB will require staff to record time according to OMB circular A-87, 2CFR Part 225*

Reconcile its local fund accounts to state financial records on a monthly basis.

*When Department of Enterprise Services (DES) took over financial processing, a local betterment bank account was closed and erroneously recorded in AFRS.*

*While the service they provided included monitoring and reconciling, they were not reconciling to individual bank statements but were combining two different accounts. WSSB currently reconciles monthly.*

## **Auditor's Concluding Remarks**

We appreciate the School's commitment to resolving the issues noted and will follow up during the next audit.

## **Applicable Laws and Policies**

Revised Code of Washington, Section 43.09.420, Audit of revolving, local, and other funds and accounts, states in part:

As a part of the routine audits of state agencies, the state auditor shall audit all revolving funds, local funds, and other state funds and state accounts that are not managed by or in the care of the state treasurer and that are under the control of state agencies, including but not limited to state departments, boards, and commissions.

*Office of Financial Management State Administrative and Accounting Manual, Section 85.32.10, Goods and Services Expenditures, states in part:*

It is the responsibility of the agency head, or authorized designee, to certify that all expenditures/expenses and disbursements are proper and correct.

- (2) Procedures to ensure prompt and accurate payment of authorized obligations.
- (3) Procedures to control cash disbursements.

*Office of Financial Management State Administrative and Accounting Manual, Section 90.40.10, State Disclosure Forms, states in part:*

All financial information reported is to be reconciled to AFRS.

*Office of Financial Management State Administrative and Accounting Manual, Section 90.20.55, Accounting Estimates, states in part:*

- (a) An accounting estimate is an approximation of an expenditure/expense, revenue, or other financial statement element. Accounting estimates are included in the state's accounting records because of the following:
  - (1) The measurement of some amounts or the valuation of some financial statement element may be uncertain, pending the outcome of future events.

- (2) Relevant data concerning events that have already occurred cannot be accumulated on a timely, cost-effective basis.
- (c) Agencies are responsible for establishing a process for preparing accounting estimates. The process normally consists of the following:
  - (1) Identifying situations for which accounting estimates are required.
  - (2) Identifying the relevant factors that may affect the accounting estimate.
  - (3) Accumulating relevant, sufficient, and reliable data on which to base the estimate.
  - (4) Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors.
  - (5) Determining the estimated amount based on the assumptions and other relevant factors.

Once an agency has determined the accounting estimate, they must record the accounting estimate in accordance with state accounting policies.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

We 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.

**State Auditor**  
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**Director of Performance and State Audit**  
**Director of Local Audit**  
**Deputy Director of State Audit**  
**Deputy Director of Local Audit**  
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**Deputy Director of Performance Audit**  
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