



# Washington State Auditor's Office

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## Accountability Audit Report

# Lake Stevens School District No. 4

Snohomish County

For the period September 1, 2012 through August 31, 2014

Published June 18, 2015

Report No. 1014486





## Washington State Auditor's Office

June 18, 2015

Board of Directors  
Lake Stevens School District No. 4  
Lake Stevens, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District strengthen its controls over safeguarding assets by:

- Performing a complete inventory and following up on missing assets timely.
- Maintaining documentation separately that supports changes to inventory results.
- Ensuring staff has adequate time, resources, and training to complete an accurate inventory, including the investigation and reporting of missing items on the asset inventory list.
- Ensuring assets are identifiable by a unique identification number both in the system as well as on the physical asset.
- Complying with RCW 43.09.185 by reporting timely all known or suspected losses of public funds, including publicly funded assets, to the State Auditor's Office as required.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of Lake Stevens School District No. 4 from September 1, 2012 through August 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Apportionment-staff mix
- Travel
- Self-insurance
- Payroll system review
- Safeguarding of assets
- Contracts and agreements

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2014-001 The District does not have adequate internal controls to safeguard and account for its assets.**

#### *Background*

It is the responsibility of the District to establish effective internal controls over safeguarding all assets purchased with public funds. We reviewed the District's policies and procedures for tracking, monitoring, and safeguarding assets such as vehicles, tools, and electronic devices. As of May 2015, the District had 5,486 items on its inventory list with a value of \$9,713,917.

#### *Description of Condition*

Our audit identified the following weaknesses in internal controls over inventory and safeguarding assets:

- The District did not perform a timely follow up of assets identified as missing during its initial physical inventory. In addition, the District filed its documentation of follow-up procedures, with the original inventory results and was not able to support assets later determined to be found from the initial inventory results.
- Staff at the High School did not follow District procedures, which requires physically observing each asset prior to certifying the inventory list.
- The District does not consistently enter unique identifying information into the asset tracking system, such as serial numbers, and does not consistently update the location of the assets in the system.

#### *Cause of Condition*

The District did not dedicate adequate time and resources to conduct a thorough physical inventory of assets, including following up on missing assets.

#### *Effect of Condition*

Without adequate internal controls to ensure proper safeguarding, assets are at risk and vulnerable to misappropriation, misuse, or loss, which would not be detected in a timely manner, if at all by District staff.

The District conducted the physical inventory in June 2014 and did not follow-up on 1,226 missing items until March 2015.

- In May 2015, the District provided a list of 635 recently found items and an updated list of 422 missing items. The District did not have documentation readily available to support it located the additional 169 assets as the support was filed with the original inventory results.
- Using the list of 635 recently found items; we selected 32 assets to physically observe. We were able to locate all assets except for those selected from the High School. Four of the seven assets certified at the High School as found were unable to be located.
- As of May 2015, the District is unable to locate 414 assets, including multiple tablets, cameras, laptops, and tools.

### ***Recommendation***

We recommend the District strengthen its controls over safeguarding assets by:

- Performing a complete inventory and following up on missing assets timely.
- Maintaining documentation separately that supports changes to inventory results.
- Ensuring staff has adequate time, resources, and training to complete an accurate inventory, including the investigation and reporting of missing items on the asset inventory list.
- Ensuring assets are identifiable by a unique identification number both in the system as well as on the physical asset.
- Complying with RCW 43.09.185 by reporting timely all known or suspected losses of public funds, including publicly funded assets, to the State Auditor's Office as required.

### ***District's Response***

*Lake Stevens School District concurs with the information outlined in the finding document. The cause as recognized by the State Auditor determined the district did not dedicate adequate time and resources to conduct a thorough physical inventory of assets, including following up on missing assets.*

*The District has taken steps to improve and strengthen internal controls through communication with the departments responsible for the inventory, identifying timelines, responsibility and establishing an outcome of when assets are not found. We have communicated with administrative staff the importance of this event and asked for their cooperation and participation during the physical*

*inventory. We will maintain all documentation that supports changes to the inventory separate for easy access and ensure to record unique identification numbers in both the database and on the asset itself.*

*We appreciate the Auditor's recommendations and will be taking action to strengthen internal controls sufficient to safeguard the District's assets.*

### ***Auditor's Remarks***

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

### ***Applicable Laws and Regulations***

When performing our audit we considered the following requirements:

*Accounting Manual for Public School Districts in the State of Washington: Chapter 3-Accounting Guidelines, Loss of Public Funds, page 3-3.*

*Accounting Manual for Public School Districts in the State of Washington: Chapter 1-Principles of Accounting, Accounting for Capital Assets and Long-Term Liabilities, page 1-11.*

*Accounting Manual for Public School Districts in the State of Washington: Chapter 3-Accounting Guidelines for Capital Assets, pages 3-15 through 3-19.*

*Lake Stevens School District Policy No. 3400: Capital Assets and Theft Sensitive Assets.*

*Lake Stevens School District Policy No. 3400: Property Records Procedures, sections 3.1, 4.1, and 6.1-6.3.*

RCW 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.

## RELATED REPORTS

### **Financial**

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report issued in May 2015, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

### **Federal grant programs**

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report issued in May 2015. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

### **Other reports**

We have conducted a separate audit to examine the District's compliance with Alternative Learning Experience (ALE) requirements. A separate report will be issued at the completion of that audit and will be available on our website, <http://portal.sao.wa.gov/ReportSearch>.



## INFORMATION ABOUT THE DISTRICT

Lake Stevens School District No. 4 provides public school services to approximately 7,905 students in preschool through 12th grade in Lake Stevens and portions of unincorporated Snohomish County. The District operates six elementary schools, two middle schools, one mid-high school, one high school and one cooperative alternative high school. The District also operates HomeLink, a K-12 home school district parent partnership program.

An elected, five-member Board of Directors governs the District. The Board appoints a Superintendent to oversee the District's daily operations as well as its staff of over 1,000 employees, including approximately 490 certificated employees. For fiscal year 2014, the District budgeted general fund expenditures of \$79,531,120.

| <b>Contact information related to this report</b> |  |
|---|--|
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*Information current as of report publish date.*

### **Audit history**

You can find current and past audit reports for Lake Stevens School District No. 4 at <http://portal.sao.wa.gov/ReportSearch>.

## 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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|---|--|
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