



# Washington State Auditor's Office

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## Accountability Audit Report

# South Kitsap School District No. 402

Kitsap County

For the period September 1, 2013 through August 31, 2014

Published May 28, 2015

Report No. 1014124





## Washington State Auditor

May 28, 2015

Superintendent and Board of Directors  
South Kitsap School District No. 402  
Port Orchard, 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 improve internal controls over ASB activities to ensure compliance with association guidance and state laws and regulations.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of South Kitsap School District No. 402 from September 1, 2013 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:

- Teacher education and experience (staff mix) reporting
- Student enrollment reporting
- Financial condition
- Credit cards
- Associated Student Body
- Out of state travel
- Student store
- Food services

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2014-001 The District's internal controls over Associated Student Body activities are insufficient to safeguard against loss and noncompliance with laws and regulations.**

### *Description of Condition*

The South Kitsap School District No. 402 Associated Student Body (ASB) program collected a total of \$978,159.50 in the 2013-2014 school year.

During our review of ASB procedures at South Kitsap High School and John Sedgwick Junior High School we identified the following issues:

#### Minutes:

Both schools did not retain student council minutes for fiscal year 2014. Under the School District Records Retention Schedule, ASB minutes are to be retained for six years after the end of the calendar year before being transferred to the Washington State Archives for permanent retention.

#### Fundraisers:

During our review of fundraisers we identified missing fundraiser documentation. We reviewed a total of six fundraisers between the two schools. We noted the following missing or inadequate documentation for three of the fundraisers:

- Student council approval prior to the event date.
- An analysis of expected revenue.
- A reconciliation of receipts to expected profit analysis following the event.
- A completed profit analysis.

#### Ticket Sales:

We reviewed 17 cash boxes used for ticket or yearbook sales by South Kitsap High School during fiscal year 2014. During these reviews, we noted the following:

- Twelve out of 17 cash boxes reviewed were either over or short and none of the ticket sales forms included an explanation as to what caused the over or short.

- Five of the 12 differences noted within the cash boxes reviewed were more significant:
  - \$11 over at a high school football game.
  - \$16 short at the high school's spring play.
  - \$38 over at the high school's spring play.
  - \$50 over at the high school's spring play.
  - \$100 short from receipting tickets for senior prom.
- The \$50 overage noted at the high school's spring play was not included with the amount receipted into the ASB system and was therefore never deposited. The ASB bookkeeper was unaware of what happened to these funds and they were never located.
- The \$100 shortage of revenue earned while receipting tickets for senior prom was never recovered and the loss was not reported to the State Auditor's Office.
- Cash receipted into the ASB system from the Madrigal Feast was not supported with ticket numbers. Total cash from these boxes was provided to the ASB bookkeeper and subsequently receipted into the system without any comparison to what was actually sold. The total unsupported revenue received for the Madrigal Feast was \$400.
- More than one event was being receipted out of the same cash box, before it was counted or reconciled.

Yearbooks:

- At South Kitsap High School we found 179 yearbooks, valued at about \$9,397.50, went unsold during fiscal year 2014; there was not adequate tracking to account for this unsold inventory.
- While reviewing the yearbook revenue that was receipted in through cash boxes, we noted that yearbooks were sold on June 9, 2014 and June 13, 2014. The revenue from these boxes were not receipted into the ASB system and therefore not deposited into the District's bank account until June 25, 2014 and June 26, 2014, respectively. Total revenue from both deposits was \$17,373.
- Cash receipted into the ASB system from yearbook sales was not supported with total books sold. Total cash from these boxes was provided to the ASB bookkeeper and subsequently receipted into the system

without any comparison to what was actually sold. The total unsupported revenue received for yearbook sales was \$7,963.

### ***Cause of Condition***

The District did not establish adequate internal controls over ASB activities to ensure all ASB activities were handled in accordance with the School District Accounting Manual, the Revised Code of Washington or School District Records Retention requirements.

### ***Effect of Condition***

Inadequate internal controls over ASB activities, revenues and general cash receipting resulted in decreased accountability and an increased risk that misappropriation, loss or misuse of public funds may occur and not be detected in a timely manner, if at all.

### ***Recommendation***

We recommend the District improve internal controls over ASB activities to ensure compliance with state laws and regulations. These improvements should include:

- Retaining student council minutes.
- Ensuring all necessary records are prepared, retained, and monitored.
- Ensuring staff and students selling tickets at an ASB event receive adequate training.
- Ensuring no more than one ticket sales form is filled out per cash box before being receipted and reconciled by the ASB bookkeeper.
- Ensuring that all funds received through the use of cash boxes are adequately supported before being receipted into the ASB system.
- Ensuring that all ASB revenues are receipted into the system and subsequently deposited in a timely manner.
- Reconciling the number of tickets sold to the amount receipted and ensuring any large differences are investigated.
- Reconciling yearbook revenue to the number of yearbooks sold and periodically reconciling yearbook inventory.

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

*The District concurs with the information as outlined in the finding document. The cause as recognized by the State Auditor determined the district did not establish adequate internal controls over ASB activities to ensure all ASB activities were handled in accordance with the School District Accounting Manual, the Revised Code of Washington, and the School District Records Retention requirements.*

*The District has taken steps to improve and strengthen internal controls through increased monitoring, and targeted training to staff specific to the items outlined in the "Finding" document. This will be accomplished in part with the addition of a Central Office position dedicated to ensuring staff involved with ASB activities are accountable and are in compliance with laws, regulations, and district expectations.*

*The District will be updating and standardizing all required forms to properly document ASB activities and fundraisers to be utilized by all school buildings. Written and verbal guidance will be provided to all ASB Advisors and Building Bookkeepers in order to establish accountability and expectations surrounding ASB activities. The District is establishing monitoring processes to include random visits to school sites during the school year performing internal audit functions specific to the areas of insufficient internal controls as outlined in the "Finding" document.*

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

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

We thank the District for its cooperation and assistance throughout the audit, and the steps it is taking to address this issue. We will review the status of the District's corrective action during our next audit.

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

RCW 43.09.200 Local government accounting – Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.



The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from every source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published , for the information of the people regarding any and all details of the financial administration of public affairs.

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 hours.

RCW 28A.400.030(3) Superintendent’s duties, states in part:

The Superintendent shall . . . keep accurate and detailed accounts of all receipts and expenditures of school money.

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

(1)(b) All moneys generated through the programs and activities of any associated student body shall be deposited in the associated student body program fund. Such funds may be invested for the sole benefit of the associated student body program fund in items enumerated in RCW 28A.320.320 and the county treasurer may assess a fee as provided therein. Disbursements from such fund shall be under the control and supervision, and with the approval, of the board of directors of the school district, and shall be by warrant as provided in \*chapter 28A.350 . . .

(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 non associated student body fund moneys. The school board policy shall include provisions to ensure appropriate accountability for these funds. Non associated 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:

Washington Administrative Code WAC 392-138-010 Definitions, states in part:

(2) "Associated student body program" means any activity which (a) is conducted in whole or part by or in behalf of an associated student body during or outside regular school hours and within or outside school grounds and facilities, and (b) is conducted with the approval, and at the direction or under the supervision, of the school district.

Washington Administrative Code (WAC) 392-138-014 Accounting procedures and records, states in part:

Associated student body moneys shall be accounted for as follows:

(1) Accounting methods and procedures shall comply with such rules and regulations and/or guidelines as are developed by the state auditor and the superintendent of public instruction and published in the Accounting Manual for Schools . . . .

*Accounting Manual for School Districts in the State of Washington*, Chapter III, states in part:

Each school board is responsible for establishing and maintaining an effective system of internal controls throughout the district.

Further, an internal control system; (should) ensure that resource use is consistent with law, regulation, and policy; that resources are guarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

## 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 programs, which are listed in the Federal Summary section of the financial statement and single audit report issued in May 2015. That report includes a federal finding regarding a significant deficiency in internal controls and questioned costs for the District's Impact Aid program. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE DISTRICT

South Kitsap School District No. 402 operates 10 elementary schools, three junior high schools, one high school and two alternative schools. The District served an average of 8,875 full-time students during the year under audit. The District has approximately 1,200 employees who provide an array of services in basic, special and vocational education and supporting services such as food and nutrition, health, maintenance and operations, transportation, student records, purchasing, human resources, financial and administrative.

The District is administered by an elected, five-member Board of Directors which appoints a Superintendent to oversee the District's day-to-day operations. The District's general fund operating budget was approximately \$95 million for the fiscal year ended August 31, 2014.

<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 South Kitsap School District No. 402 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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