



# Washington State Auditor's Office

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## Accountability Audit Report

# Northshore School District No. 417

King and Snohomish Counties

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

Published August 3, 2015

Report No. 1014687





## Washington State Auditor's Office

August 3, 2015

Board of Directors  
Northshore School District No. 417  
Bothell, 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,

A handwritten signature in blue ink, reading "Jan M. Jutte".

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:

- Ensure compliance with the Open Public Meetings Act.
- Provide board members, management, and appropriate staff with additional training on conflict of interest laws, the Open Public Meetings Act, and District policies.
- Ensure that board members comply with the Code of Ethics for Municipal Officers.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of Northshore School District No. 417 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:

- |                             |                            |
|-----------------------------|----------------------------|
| • Financial condition       | • Use of restricted funds  |
| • General disbursements     | • Whistleblower compliance |
| • Insurance/risk management | • Bond compliance          |
| • Open Public Meetings Act  | • Conflict of interest     |

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2014-001    The District violated Open Public Meetings Act and Code of Ethics for Municipal Officers.**

#### ***Background***

State law prohibits municipal officers from directly or indirectly, receiving any compensation, gift, reward, or gratuity from anyone other than their employing municipality, for a matter connected with or related to the officer's services. State law also requires discussion of District business by a quorum of board members to meetings held only in an open public forum.

In addition, District purchasing policies prohibit board members, administrators and staff from receiving gifts or favors from vendors or prospective vendors who may conduct transactions with the District. In May 2015, the District clarified its policies by adding meals to the list of items prohibited from being received from vendors or prospective vendors.

#### ***Description of Condition***

In February 2013 the District entered into a General Contractor/Construction Manager process for the construction on its fourth high school with an estimated budget of \$130 million. Two Board Members informed our Office that on March 1, 2015, while attending a conference, three of the five board members, as well as the Superintendent attended a dinner paid by a flooring vendor of the high school project. During the dinner, discussion included the new high school project. In addition, a subsequent dinner was also purchased by the same vendor for two board members on March 21, 2015. In April 2015, the District issued a purchase order in the amount of \$2,603,516 to purchase carpet from the vendor. The vendor was selected using the King County Directors' Association (KCDA) purchasing cooperative. Although the process and selection of the vendor through the purchasing cooperative appears to have occurred before the March 1, 2015 dinner, we noted there could still be potential perception of a conflict.

We noted the following violations:

- By creating a quorum of board members and discussing District business, the District violated the Open Public Meetings Act by not advertising the special meeting at least 24 hours before the meeting took place as required by state law (RCW 42.30.080(1)).

- Minutes are required for all special meetings according to state law (RCW 42.32.030). The District did not create minutes for the special meeting noted above.
- At least three board members received a gift from a vendor of the high school project. By receiving dinner from the vendor, the board members are at risk of violating state law (RCW 42.23) as well as District Policy (No. 7324) which was adopted in 1993 and most recently revised in May 2015.

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

The Board lacked an understanding of what constitutes an open public meeting or the requirement to create and maintain minutes. In addition, the Board was unaware that the purchase of a meal by a vendor may represent a violation of the Code of Ethics for Municipal Officers.

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

Violations of the Open Public Meetings Act deny the citizens their right to be informed of Board decisions and actions. In addition, by receiving a gift from a vendor, the District is at risk of violating the Code of Ethics for Municipal Officers (RCW 42.23).

### ***Recommendation***

We recommend the District:

- Ensure compliance with the Open Public Meetings Act.
- Provide board members, management, and appropriate staff with additional training on conflict of interest laws, the Open Public Meetings Act, as well as District policies.
- Ensure that board members comply with the Code of Ethics for Municipal Officers.

The District has taken the following steps to address the items noted:

- The board revised their own policy (Policy 7324 – Relations with Vendors) to include reference to meals in order to be in compliance with state law. The revision was approved in May 2015.
- Two of the three board members updated their Personal Financial Affairs Statement with the Public Disclosure Commission to reflect the dinner received.

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

*The fourth high school construction project involved in the flooring contract is a state-approved GC/CM (General Contractor/Construction Manager) project. State process for GC/CM allows the general contractor to participate with the architect and owner in the design of the facility and act as general contractor during construction. As part of the design and planning process for determining the GC/CM's Total Contract Cost, all elements of the entire project are fully detailed and determined by the design team through a series of phases to reach final construction documents. Part of that process includes identifying the items NSD could procure through KCDA (King County Directors Association; a State approved purchasing cooperative governed by procurement laws for school districts in Washington). Procuring through KCDA allows NSD to select products and services using the state contract pricing and KCDA's approved bid process.*

*Working through KCDA provides financial savings to the project and also allows the district to ensure we are receiving the best product, warranty, and installation services for our project on items that typically have a high potential for post-occupancy maintenance issues. For flooring, the design phase of the project includes in-depth review of each space in the building and its specific floor finish needs (polished concrete, carpet, tile, etc.) based on intended use and substructure conditions (e.g., concrete slab). Specific flooring products are then selected based on those needs and procured via KCDA based on which vendor has the selected product on contract with KCDA. The flooring finishes and products were selected for this project in the spring of 2014. Detailed pricing was obtained by the vendor, and reviewed and approved by KCDA in June of 2014. The Purchase Order was issued to KCDA in April 2015 based on the construction schedule and necessary procurement lead times. In summary, no conflict of interest arose with respect to the selection of the flooring vendor for the fourth high school.*

*District Policy (No. 7324) did not specify meals as a gift prior to May 2015. While the State Auditor's report suggests that preferential treatment may have been given to the vendor as a result of the Board members receiving the dinner, the district would like to emphasize that the decision regarding the selection of the flooring vendor was made far in advance of the date of these meals. Furthermore, the meals had no impact on the decision-making process. The Board and Superintendent were not involved in the vendor selection process.*

*The Superintendent and one of the three board members who received a meal from the vendor reimbursed the vendor prior to the audit.*

*The district will continue to provide board members additional training on the Open Public Meetings Act and the Code of Ethics for Municipal Officers.*

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

We appreciate the District's commitment to continue to provide board members with additional training regarding the Open Public Meetings Act and the Code of Ethics for Municipal Officers.

We will follow-up on this finding during the next regular audit.

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

RCW 42.23.030 Interest in contracts prohibited — Exceptions.

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein.

RCW42.23.070 Prohibited acts, states in part:

(2) No municipal officer may, directly or indirectly, give or receive or agree to receive any compensation, gift, reward, or gratuity from a source except the employing municipality, for a matter connected with or related to the officer's services as such an officer unless otherwise provided for by law.

RCW 42.30.080 Special Meetings, states in part:

(1)A special meeting may be called at any time by the presiding officer of the governing body of a public agency or by a majority of the members of the governing body by delivering written notice personally, by mail, by fax, or by electronic mail to each member of the governing body. Written notice shall be deemed waived in the following circumstances: (a) A member submits a written waiver of notice with the clerk or secretary of the governing body at or prior to the time the meeting convenes. A written waiver may



be given by telegram, fax, or electronic mail; or (b) A member is actually present at the time the meeting convenes.

#### RCW 42.32.030 Minutes

The minutes of all regular and special meetings except executive sessions of such boards, commissions, agencies or authorities shall be promptly recorded and such records shall be open to public inspection.

#### Northshore School District policy #1430 Quorum:

Three board members shall be considered as constituting a quorum for the transaction of business.

#### Northshore School District policy # 7324 Purchasing:

Relations with Vendors- Financial and business transactions of the district shall be carried out in conformity with the law and consistent with sound and ethical business practices. Purchasing decisions shall be made on the basis of objectivity and shall not be influenced by friendships or other personal relationships. Board members, administrators or staff shall not accept gifts, meals or favors from vendors or prospective vendors or other firms or individuals who have had or hope to have transactions with the district. Interests of board members, administrators or staff in any district purchase, sale or other transaction shall be prohibited.

## 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 is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE DISTRICT

Northshore School District No. 417 serves approximately 20,400 students in a 60 square-mile area of northeast King County and south Snohomish County. The District has 20 elementary schools, six junior high schools, three high schools, and an alternative high school. In addition, the District has an early childhood center, a kindergarten through 12th grade home school program, a preschool, and a pre-kindergarten 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 approximately 2,500 employees. For fiscal year 2014, the District's general fund operating budget was approximately \$201 million.

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|--|--|
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*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Northshore School District No. 417 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.

| Contact information for the State Auditor's Office |  |
|--|--|
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