



Washington State Auditor's Office

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Accountability Audit Report

Odessa School District No. 105

Lincoln County

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

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Washington State Auditor's Office

September 3, 2015

Board of Directors
Odessa School District No. 105
Odessa, 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 improve internal controls over ASB activities. These improvements should include:

- Providing adequate training and ensuring ASB advisors follow state laws, rules and district policies.
- Prepare, retain and monitor all necessary records for ASB activities.
- Student council and advisors, as appropriate, approve expenditures prior to their occurrence.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of Odessa School District No. 105 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:

- Teacher education and experience (staff mix) reporting
- Associated Student Body

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The District's inadequate internal controls over Associated Student Body activities puts public funds at risk.

Background

Districts may use Associated Student Body (ASB) funds for optional and non-curricular activities that are cultural, athletic, recreational or social in nature, or to otherwise support the activities and programs of ASBs.

The Odessa School District No. 105's ASB collected \$113,632 and \$108,595 in the fiscal years 2013 and 2014, respectively.

Description of Condition

Our prior audits recommended the District improve its controls over ASB activities. During our review of 2013 and 2014 ASB activities and procedures, we identified the following conditions:

Fundraisers

The District did not maintain adequate documentation to support for the four fund raisers tested. Specifically, they were unable to provide:

- Analysis of expected revenue.
- Post event reconciliation of receipts to expected profit based on items sold and/or inventory.
- Completed profit analysis.

ASB expenditures

Student council approvals did not consistently occur before expenditures were paid.

Cause of Condition

District staff in charge of ASB activities have not made it a priority to address prior audit issues and recommendations. Further, they have not provided training to ASB advisors and students on requirements and expectations for ASB activities.

Effect of Condition

Inadequate internal controls over ASB activities, revenues, inventory and general cash receipting result in 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. These improvements should include:

- Providing adequate training and ensuring ASB advisors follow state laws, rules and district policies.
- Prepare, retain, and monitor all necessary records for ASB activities.
- Student council and advisors, as appropriate, approve expenditures prior to their occurrence.

District's Response

In the "Description of Condition" in the schedule of Audit Findings for the 2012-2014 audit period it was stated that in prior audits the district received a recommendation to improve controls on ASB activities and procedures. Odessa has a fiscal audit, at our request, every other year. In our last audit cycle for the 2010-2012 period there were no ASB issues brought to our attention. We had a management letter concerning reconciliation of ticket proceeds at school dances in the 2008-2010 audit cycle. With the issuance of the management letter, all events taking place at the school such as dances, extracurricular games, and student activities for which there was an admittance charge, were given specific instructions to insure compliance with the directives of the management letter. Training was provided for the ASB advisor, the school secretary and ASB officers concerning ticket reconciliation.

A finding indicates an area of impropriety that if not corrected could cause financial risk to the district or which is enriching an employee due to fraud. The finding in this case stated the district did not maintain adequate documentation to support the four fund raisers tested. The fund raisers in question were FBLA students catering a buffet dinner for a legislative meeting between Lincoln county school board members and state legislators representing the districts; and food booths the FBLA ran during Duetchesfest and Stump Jumpers community events. The FBLA is very active in fundraising as they are very successful and need to raise funds to send qualifying members to compete at state and national conventions.

The audit “finding” stated the district was not able to provide an analysis of expected revenue, post event reconciliation of receipts to expected profit based on item sold and/or inventory and a completed profit analysis. The list of ASB exceptions stated there was not any supporting documentation of how the estimates of expected revenue were established and that the advisor does not track inventory or the number of items sold. We take exception to the statement there were no supporting documents as there was a sophisticated method of tracking profit and assigning these to individual students within the club to help them pay for their activities. The format for these reports has been changed to meet the requirements stated by the auditor but they existed prior to the audit, just not to her satisfaction. Below we explain the events in question to refute the “finding”.

The legislative dinner catered by the FBLA was a dinner for 20 confirmed guests; these guests were required to RSVP and state how the dinner was going to be paid for days before the dinner took place. The receipts showed 21 dinners were paid for as an extra guest unexpectedly showed up. This is not an unusual occurrence at a catered event. The FBLA caters a number of events. They are contacted by a group seeking their service, they negotiate a price per meal, get ASB approval for the event, purchase the food necessary, arrange the workers for the event (FBLA members and parents), and finally prepare and serve the food. They are paid the negotiated price per plate for the number of meals ordered and any extra meals served. In the discussion about what they should have done different it was suggested they should have counted the plates set out for the buffet so they could reconcile this with the proceeds. Since reimbursement for this event does not happen at the time of the food service this seems to be an unnecessary step. Food items are purchased in the “raw form” and are then prepared and served in a buffet fashion making it impossible to reconcile the food purchased to servings provided. Experience in prior events and the amount of profit expected have been the measure of accountability.

The FBLA also has food booths at community events. Changes were made and an effort to include an inventory analysis of items sold at fund raisers was done since the advisor’s initial meeting with the auditor this winter and will be continued in the future. As previously mentioned, the complexity of some fund raisers makes it very difficult to do this for two reasons:

- *First are the ingredients used. For example, bratwurst are purchased from a local family and there is no consistency in brat size...some are 2 oz. others are 4 oz. We consistently purchase 300# which has served our needs. These brats are raw and must be cooked to a temperature of 165 degrees on a barbecue. This process is quite tricky, as grill fires from the*

raw brats are a constant problem. In addition, potatoes are purchased from a local potato shed. They are graded #2 which allows us to purchase them cheap, but once again, there is no consistency on quality or size from box to box. The potatoes are used for two very different products, German potato salad and curly fries. The amount sold each year varies. There is also a great deal of waste with this product. Getting an accurate count of items sold can be very difficult.

- *Second, sales are rarely for individual items. They are sold in a variety of combinations. A “plate” can include a bratwurst, German potato salad and/or Sauerkraut and/or curly fries. The amount each person gets depends on what they order. It would be nearly impossible to keep track of items sold because there are so many combinations and each plate is made to order. It would be like asking the Chipotle restaurant how many servings of refried beans they sold. Every order is different. What we could make an educated guess on is how many “plates” were sold, but exactly what was on them and the price paid would be challenging to determine as each item is priced separately.*

There are many controls used to ensure that the booth has maximum profit. These include:

1. *Money-The money is only handled by two people each shift. These people are carefully selected; one is an adult and one is a student who have excellent math skills, excellent character and can think and act quickly.*
2. *Cash Box-Bills larger than \$10 are removed from the cash box hourly so they aren't a temptation and so they are not mixed up with smaller bills.*
3. *Monitoring food prep-Wasted food is can be a tremendous financial loss. This is prevented by:*
 - a. *Monitoring temperatures constantly so items don't scorch*
 - b. *Careful monitoring of supply to make sure an adequate amount is ready at any given time without having excess that will go to waste because it is overcooked or has been at room temperature too long.*
4. *Line Monitor-A trusted adult is assigned to the production line to oversee the process to ensure that proportions are consistent and all customers receive an excellent meal.*

The final fund raising effort questioned was the Bratwurst Booth at the StumpJumpers. This effort requires a week of preparation, terrible working conditions—heat, grease, smoke, and dirt.

We have done everything in our power to make sure that the profits from these booths are maximized to the fullest. The bratwurst booth has consistently shown a profit of about 58%. We are running a small business here and considering who we are working with and the conditions we have to work under, I believe it has consistently proven to be very successful. There are so many factors that go into that this type of fund raiser to ensure maximum profitability, and an inventory count seems like only a small piece of a much larger picture. If I can clearly show that we made over a \$3000 profit by selling an inventory of 1500 pounds of potatoes and 300 pounds of sausage in a seven hour time period that deserves kudos, not a finding.

All four fund raisers tested were supported by the attached profit analysis spreadsheet. Because of the complexity of the fund raisers, the standard form is not adequate to explain the profit analysis in detail. Therefore, the spreadsheet was attached to each form.

Post event reconciliation of receipts to expected profit based on items sold and/or inventory are explained by the variety and complexity of the activities taking place, explained above. Based on the meetings between the advisor and auditor, the FBLA club has made every effort to include an inventory analysis of items sold at fund raisers.

Auditor's Remarks

The steps the District has taken are not sufficient to prevent or detect a loss in a timely manner. While the ASB activities may be both extensive and complex, these factors increase the importance of controls over the funds involved in those activities.

We thank the District for their assistance during the audit and will follow up on the status of this issue during our next scheduled audit.

Applicable Laws and Regulation

RCW 28A.325.020 Associated student bodies – Powers and responsibilities affecting, states in part:

The superintendent of public instruction . . . shall promulgate rules and regulations to designate the powers and responsibilities of the board of directors of the school districts... in developing efficient

administration, management, and control of moneys, records, and reports of the associated student bodies organized in the public schools of the state.

RCW 28A.325.030 Associated student body program fund – Fund-raising activities -- Non associated 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 nonassociated student body fund moneys. The school board policy shall include provisions to ensure appropriate accountability for these funds. Nonassociated 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

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.

WAC 392-138-014, Accounting procedures and records, states in part:

Associated student body public and non-associated student body private moneys shall be accounted for as follow:

- (1) Accounting methods and procedures shall comply with such rules and regulations /or guidelines as are developed by the state auditor and the superintendent of public instruction and published in the *Accounting Manual for Public School in the State of Washington* and/or guidelines as are developed by the state auditor and the superintendent of public instruction and published in the *Accounting Manual for Public School in the State of Washington* and/or other publications;
- (2) Whenever two or more associated student bodies exist within a school district, the accounting records shall be maintained in such a manner as to provide a separate accounting for the transactions of each associated student body in the associated student body in the associated student body program fund;
- (3) The fiscal and accounting records of associated student body program moneys shall constitute public records of the school district, shall be available for examination by the state auditor, and shall be preserved in accordance with statutory provisions governing the retention of public record.

WAC 392-138-125 Associated student body public moneys – Disbursement approval – Total disbursements, states in part:

Associated student body public moneys shall be disbursed subject to the following conditions:

- (1) No disbursements shall be made except as provided for in budget approved pursuant to WAC 392-138-040
- (2) Disbursements shall occur only upon presentation of properly prepared vouchers in such format and design as the central district office shall prescribe;
- (3) All disbursements from the associated student body program fund or any imprest bank account established thereunder shall have the prior approval of the appropriate governing body representing the associated student body. Supporting documentation of the vouchers shall bear evidence of approval by the

associated student body governing body in accordance
with associated student body bylaws;

Accounting Manual for School Districts, Chapter 3, states in part:

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

RELATED REPORTS

Financial

Our opinion on the District's financial statements is provided in a separate report issued in September 2015, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Odessa School District No. 105 serves approximately 230 students from Grant, Adams and Lincoln counties. The District operates one high school, one middle school and one elementary school.

An elected, five-member Board of Directors provides oversight responsibility and appoints a Superintendent who is responsible for the District's daily operations. The District has 34 employees and operates on an annual general fund budget of approximately \$3.4 million.

Contact information related to this report	
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Information current as of report publish date.

Audit history

You can find current and past audit reports for Odessa School District No. 105 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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