



Washington State Auditor's Office

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Accountability Audit Report

Lake Quinault School District No. 97

Grays Harbor County

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

Published October 8, 2015

Report No. 1014973





Washington State Auditor's Office

October 8, 2015

Superintendent and Board of Directors
Lake Quinault School District No. 97
Amanda Park, 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:

- Continue to work closely with the Office of Superintendent of Public Instruction (OSPI) on ways to improve its fund balance and to create financial stability.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to District management in a letter dated September 9, 2015, related to staff mix reporting. We appreciate the District's commitment to resolving those matters.

There are also certain matters that came to our attention in February 2015 that are currently under investigation.

About the audit

This report contains the results of our independent accountability audit of Lake Quinault School District No. 97 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:

- Open public meetings
- General revenue and expenditures
- Significant account system controls – disbursements, cash receipting and payroll
- Financial condition
- Staff mix reporting
- Cash receipting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The District's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.

Background

We reported concerns relating to the District's financial condition in the past several audits. During the current audit, we noted the District has improved its general fund ending balance; however, it is still relying on interest-bearing warrants from the County Treasurer to cover expenses throughout the fiscal year.

Description of Condition

The District's ending general fund cash balance is as follows:

<u>Fiscal Year</u>	<u>General Funding Ending Balance</u>
2010	\$86,224
2011	\$142,484
2012	\$66,405
2013	\$45,701
2014	\$53,637

The general fund ending balance as of May 31, 2015 was \$68,703.

The District was issued approximately \$130,000 in interest-bearing warrants through the Grays Harbor County Treasurer's Office for fiscal year 2014 and \$338,000 in fiscal year 2015. In 2014 the District also issued \$70,000 in interfund loans. All interest-bearing warrants and interfund loans have been repaid.

Currently the District is also in binding conditions which requires it to contract with an administrator and submit a financial condition plan to the Office of Superintendent of Public Instruction.

Cause of Condition

Although the District has reduced expenditures, its revenues are still not sufficient to cover operational expenses or maintain an adequate fund balance.

Effect of Condition

The District is at risk of not being able to meet its financial obligations and maintain current service levels. The District has already had to rely on the

County for interest-bearing warrants. The interest on this debt is an additional cost to the District and taxpayers.

The District is also in binding conditions with OSPI.

Recommendation

We recommend the District continue to work closely with OSPI on ways to improve its fund balance and to create financial stability.

District's Response

Lake Quinault School District agrees that the finding addressing the fund balance of the district is appropriate. The district is currently working with ESD 113 to strengthen their financial position. The district continues to work with OSPI and ESD 113 under "binding conditions". The district has also hired a new Business Manager, who works closely with ESD 113 and attends its' Business Manager Academy. Lake Quinault has improved their fund balance and is expecting continued growth in that area. As the auditor is well aware of, a multi-year fraud within the district hampered its efforts to improve its fund balance.

In August 2015, at its annual workshop, the Lake Quinault Board of Directors have directed the superintendent to achieve a one-month cash reserve within 3 years in accordance with District Policy 6022 (Minimum Fund Balance). This has become one the board's major goals for School Year 15-16 and will be reviewed at their monthly board meetings.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to improving its fund balance.

We also wish to thank District management for their cooperation and assistance during our audit. We look forward to working with the District on this issue and will follow up on it during the next audit.

STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of Lake Quinault School District No. 97. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: September 1, 2012 through August 31, 2013	Report Ref. No.: 1011778	Finding Ref. No.: 1										
Finding Caption: The District's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.												
Background: The District's General Fund ending cash balance since fiscal year 2010 is shown below: <table data-bbox="292 798 941 997"> <thead> <tr> <th><u>Fiscal Year</u></th> <th><u>General Funding Ending Balance</u></th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>\$ 86,224</td> </tr> <tr> <td>2011</td> <td>\$142,484</td> </tr> <tr> <td>2012</td> <td>\$ 66,405</td> </tr> <tr> <td>2013</td> <td>\$ 45,701</td> </tr> </tbody> </table> <p>The general fund ending balance as of March 31, 2014 was \$37,620. The District was issued approximately \$327,000 in interest-bearing warrants through the Grays Harbor County Treasurer's Office for fiscal year 2013 and \$131,000 in fiscal year 2014. This resulted in the District incurring interest payments of \$444.</p>			<u>Fiscal Year</u>	<u>General Funding Ending Balance</u>	2010	\$ 86,224	2011	\$142,484	2012	\$ 66,405	2013	\$ 45,701
<u>Fiscal Year</u>	<u>General Funding Ending Balance</u>											
2010	\$ 86,224											
2011	\$142,484											
2012	\$ 66,405											
2013	\$ 45,701											
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid												
Corrective Action Taken: <i>The District has implemented our audit recommendations, however there are still concerns over the District's financial health; therefore we will continue to recommend the District work closely with the Office of Superintendent of Public Instruction to improve its fund balance and to create financial stability.</i>												

RELATED REPORTS

Financial

Our opinion on the District's financial statements is provided in a separate report issued in October 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

Lake Quinault School District No. 97 provides educational services to approximately 160 students in kindergarten through the 12th grade in Grays Harbor County. The District consists of one high school, middle school and elementary school, housed in one building. The District provides basic education, supplemental programs and learning opportunities for students such as special education, food services and transportation services.

An elected, five-member Board of Directors governs the District. Board Members are elected to staggered four-year terms. The Board appoints a Superintendent to oversee the District's day-to-day operations as well as its 15 certified and 14 classified employees. The District operates on an annual budget of \$3 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 Lake Quinault School District No. 97 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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