



Washington State Auditor's Office

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Accountability Audit Report

Port Angeles School District No. 121

Clallam County

For the period September 1, 2013 through August 31, 2015

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Washington State Auditor's Office

May 26, 2016

Board of Directors
Port Angeles School District No. 121
Port Angeles, 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
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:

- Establish and follow procedures to ensure contracts are current and the terms of the contracts are being adhered to.
- Establish and follow procedures to ensure compliance with the Condominium Act.
- Ensure staff members responsible for performing tasks outlined in the contracts are aware of their responsibilities and receive adequate training to effectively perform their duties.
- Establish and follow procedures to ensure costs allocable to other governments are properly calculated, adequately supported and collected timely.

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 May 23, 2016, related to Skills Center cash receipting. We appreciate the District's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of Port Angeles School District No. 121 from September 1, 2013 through August 31, 2015.

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:

- Cash receipting
- Safeguarding of small and attractive assets such as computers
- Insurance/risk management
- Open public meeting minutes
- Special education reporting
- Payments/expenditures
- Contracts/agreements
- Information technology/data security

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The District did not have adequate controls over Skills Center contracts to ensure amounts due from participating governments were collected.

Background

Port Angeles School District No. 121 hosts the North Olympic Peninsula Skills Center for the purpose of training students of the District, four neighboring school districts and Peninsula College in certain vocational skills. The Skills Center is located in a building co-owned by the District and Peninsula College.

Building expenses, such as janitorial and utilities, are paid by the District and billed to Peninsula College based on its proportionate share of designated square footage. Building expenses totaled \$96,250 for fiscal year 2015.

The District allocates the Skills Center net loss to all participating governments based on factors outlined in the Skills Center interlocal agreement. Net losses totaled \$712,839 for fiscal years 2012 through 2015.

Description of Condition

Contracts

During our review of the Skills Center contracts, we found:

- The District did not properly allocate enrollment slots to participating governments or prepare an annual budget covering the proposed operation and financing in compliance with the Skills Center interlocal agreement.
- The District and the College were operating under the terms of a 2003 Memorandum of Understanding (MOU), which included a third party that was no longer in operation. The MOU was required to be reviewed and updated annually, until replaced by condominium ownership and facility use agreements.
- The District established the building as a condominium under the Condominium Act in 2004, but had not adhered to the terms of the condominium declaration, including establishment of an association, board and bylaws.

Allocation of Costs

Our review of the allocation of Skills Center net losses and building expenses found:

- Of the \$712,839 total net loss for fiscal years 2012 through 2015, \$61,314 had been allocated to the District, \$283,111 had been billed to participating governments, and \$368,414 had not been allocated. We were unable to determine the correct allocation of the net losses due to lack of enrollment slot allocation data.
- As of April 2016, the \$283,111 billed to participating governments in 2014 had not been collected.
- The District under-billed the College for indirect costs by at least \$5,976 (7.5%) for fiscal year 2015, based on the designated square footage used to calculate direct costs. The actual amount under-billed may have been more, based on February 2016 square footage usage. However, since the District did not periodically review or document the actual square footage usage, we were unable to determine the amount under-billed.
- As of April 2016, the District had not billed the College for any costs incurred since July 1, 2015, although the MOU required expenses to be billed monthly.

Cause of Condition

The District did not monitor to ensure Skills Center contracts were current and being complied with.

The District did not establish and follow procedures to ensure compliance with the Condominium Act.

Staff members responsible for performing tasks outlined in the contracts were unaware of their responsibilities.

The District did not establish adequate procedures to ensure costs allocable to other governments were properly calculated, billed and collected timely.

Effect of Condition

Contracts that are expired or not fully complied with may reduce the District's legal authority to collect amounts due under the terms of the contracts.

Inadequate documentation and lack of monitoring limit the District's ability to accurately calculate and allocate costs, and reduces the likelihood of collection.

Financial resources intended to provide District services have instead been used to cover costs allocable to other governments.

Recommendation

We recommend the District:

- Establish and follow procedures to ensure contracts are current and the terms of the contracts are being adhered to.
- Establish and follow procedures to ensure compliance with the Condominium Act.
- Ensure staff members responsible for performing tasks outlined in the contracts are aware of their responsibilities and receive adequate training to effectively perform the duties.
- Establish and follow procedures to ensure costs allocable to other governments are properly calculated, adequately supported and collected timely.

District's Response

The district does not dispute the conclusions noted in the finding and will take action to mitigate the conditions noted in the finding.

The district has already undertaken discussions with Peninsula College regarding updating the structure of the legal ownership of the building where the skill center program is housed and with respect to billing of overhead costs.

The district intends to review best practices for skill center programs and work with the skill center advisory board to determine the best course of action with respect to the structure of programs offered.

The district, as host, will take a lead on updating the financial statements and interlocal agreements with other participating districts of the skill center programs.

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

WAC 392-123-010 – The accounting manual

The superintendent of public instruction and the office of the state auditor shall publish and distribute to each school district an accounting manual which shall be referred to as The Accounting Manual for Public School Districts of the State of Washington. Such accounting manual, as now or hereafter amended, shall govern the accounting procedures of each school district and is hereby incorporated into this chapter by this reference. Prior to any revision thereof, the superintendent of public instruction shall publish notice of such proposed action and shall hold at least one public hearing.

Accounting Manual for Public School Districts in the State of Washington Chapter 3 Internal Control states in part:

Internal control is a management process to assist a school district in achieving the educational objectives adopted by the school board. This management control system should include procedures and policies to help ensure resources are guarded against waste, loss, and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations, and policies.

Each school district should adopt methods to assess risk and review control activities. The methods developed should address each school district's specific needs.

RCW 64.34.300 – Unit owners' association – Organization states in part:

A unit owners' association shall be organized no later than the date the first unit in the condominium is conveyed.

RCW 64.34.324 – Bylaws

(1) Unless provided for in the declaration, the bylaws of the association shall provide for:

(a) The number, qualifications, powers and duties, terms of office, and manner of electing and removing the board of directors and officers and filling vacancies;

(b) Election by the board of directors of such officers of the association as the bylaws specify;

(c) Which, if any, of its powers the board of directors or officers may delegate to other persons or to a managing agent;

(d) Which of its officers may prepare, execute, certify, and record amendments to the declaration on behalf of the association;

(e) The method of amending the bylaws; and

(f) A statement of the standard of care for officers and members of the board of directors imposed by RCW [64.34.308](#)(1).

(2) Subject to the provisions of the declaration, the bylaws may provide for any other matters the association deems necessary and appropriate.

(3) In determining the qualifications of any officer or director of the association, notwithstanding the provision of *RCW [64.34.020](#)(32) the term "unit owner" in such context shall, unless the declaration or bylaws otherwise provide, be deemed to include any director, officer, partner in, or trustee of any person, who is, either alone or in conjunction with another person or persons, a unit owner. Any officer or director of the association who would not be eligible to serve as such if he or she were not a director, officer, partner in, or trustee of such a person shall be disqualified from continuing in office if he or she ceases to have any such affiliation with that person, or if that person would have been disqualified from continuing in such office as a natural person.

RCW 64.34.332 – Meetings

A meeting of the association must be held at least once each year. Special meetings of the association may be called by the president, a majority of the board of directors, or by unit owners having twenty percent or any lower percentage specified in the declaration or bylaws of the votes in the association. Not less than ten nor more than sixty days in

advance of any meeting, the secretary or other officer specified in the bylaws shall cause notice to be hand-delivered or sent prepaid by first-class United States mail to the mailing address of each unit or to any other mailing address designated in writing by the unit owner. The notice of any meeting shall state the time and place of the meeting and the items on the agenda to be voted on by the members, including the general nature of any proposed amendment to the declaration or bylaws, changes in the previously approved budget that result in a change in assessment obligations, and any proposal to remove a director or officer.

RELATED REPORTS

Financial

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, 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 Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes a federal finding regarding controls over compliance with Title I program requirements reported. 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. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Port Angeles School District No. 121 provides educational services to approximately 3,800 students in kindergarten through 12th grade in Clallam County. The District provides a full range of school programs and services including basic elementary, middle school, high school, vocational education, alternative education, bilingual education, skills center, highly capable in elementary school, pupil transportation and food services. The District operates five elementary schools, one middle school, one high school and an alternative high school.

An elected, five-member Board of Directors governs the District. Board Members serve staggered, four-year terms. The Board appoints a Superintendent to oversee the District's daily operations as well as its approximately 300 certificated and 200 classified employees. The District operated on annual budgets of approximately \$40 million and \$41 million for fiscal years 2014 and 2015, respectively.

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 Port Angeles School District No. 121 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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