



**Office of the Washington State Auditor**  
**Pat McCarthy**

## **Accountability Audit Report**

# **Wellpinit School District No. 49**

**Stevens County**

**For the period September 1, 2015 through August 31, 2016**

**Published March 22, 2018**

**Report No. 1020883**





**Office of the Washington State Auditor**  
**Pat McCarthy**

March 22, 2018

Board of Directors  
Wellpinit School District No. 49  
Wellpinit, 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,

Pat McCarthy  
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 most areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District put internal controls in place so the District's payroll is reviewed by someone independent of entering payroll into the system.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of Wellpinit School District No. 49 from September 1, 2015 through August 31, 2016.

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
- Insurance/risk management (self-insurance)
- Payroll/personnel
- Procurement (bidding/prevaling wage)

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2016-001 Wellpinit School District did not have adequate internal controls over employee retirement to ensure complete and accurate contributions and reporting, and compliance with laws and regulations.**

#### ***Background***

During the audit, the Business Manager informed the auditor onsite that the District had been paying the retirement benefits of the Maintenance Supervisor. It was determined that the District had been paying for the retirement benefits for numerous years. When the District approached the Maintenance Supervisor, he said the Superintendent who was at the District in September 1996 approved him to have this paid for instead of providing a raise. Once the District looked back into the payroll records, it was determined that the District had also been paying the former Business Manager's retirement benefits since September 1995. During the District's investigation, it did not find that any other employee's portion of their retirement was being paid by the District.

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

The District paid a total of \$203,669 of the employee's portion of the retirement benefits for the prior Business Manager and the Maintenance Supervisor. From September 1995 to December 2015, the District paid \$134,570 of the former Business Manager's portion of her retirement benefits, and from September 1996 to February 2017, it paid \$69,099 of the Maintenance Supervisor's portion of retirement benefits.

The Business Manager stated that the School Board had approved that the District pay her portion of her retirement at one of the board meetings. The current Business Manager found this approval in the September 13, 1995 Board meeting minutes. The minutes did not document how long this arrangement was intended for.

The current Business Manager did not find an approval in the minutes that approved the current Maintenance Supervisor's retirement benefits. The Maintenance Supervisor stated that the Superintendent informed him that the board would not approve a raise for him so the District would pay his portion of his retirement instead.

The former Business Manager was responsible for preparing and processing payroll for the District and making changes in the system for District employees including herself. Based on conversations with ESD 101 the former Business Manager would have had to manually made adjustments to the Maintenance Supervisor and her own payroll on a monthly basis to have the District pay their portion of retirement.

The District has had two other Superintendents since the one who worked at the District in both 1995 and 1996. The former Business Manager could not remember if she had brought to the attention of the other Superintendents the agreement for the District to pay her employee portion of retirement. The Maintenance Supervisor informed the current Business Manager that he and the union representative went to the next Superintendent when he started to ensure that the agreement for the District to pay for his portion of the retirement would remain in place. The union representative confirmed this conversation had taken place and that the Superintendent stated he would not change this agreement; however, when we spoke to this Superintendent, he stated that this conversation did not take place.

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

The District has a small amount of staff to operate the administration portion of the District. Because of this, the District has lacked segregation of duties to ensure that sufficient review of the payroll system has occurred.

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

Without adequate oversight and monitoring, the District cannot ensure employee and benefit payments are paid accurately. Because of this, the District paid \$69,099 of the employee's portion of retirement benefits for the current Maintenance Supervisor. without adequate support of approval by the School Board.

### ***Recommendation***

We recommend that the District implement internal controls so its payroll is reviewed by someone not responsible for entering payroll into the system. This should include reviewing employee benefit disbursement detail to ensure the appropriateness of the disbursed funds.

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

*The district stopped the payments for the employee's retirement portion once it was noticed. The business manager notified the state auditor's office to find out if*

*any fraud had been committed. Going forward the district will have the executive assistant or the accounts payables technician review payroll for reasonableness.*

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

We appreciate the District's commitment to resolving the issues noted and will follow up during the next audit.

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

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

#### **Basic Internal Control Requirements**

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

An internal control system should provide reasonable assurance that a school district will accomplish its educational objectives. The concept of reasonable assurance recognizes that the cost of an internal control activity should not exceed the benefit derived from it. Reasonable assurance equates to a satisfactory level of confidence given considerations of costs, benefits, and risks.

School district management should identify and analyze the risks in achieving educational objectives and determine how to most effectively and efficiently manage those risks. Management defines the level of risk that the school district is willing to accept and strives to maintain risks within those levels.

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

## 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 program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.



## INFORMATION ABOUT THE DISTRICT

Wellpinit School District No. 49 is located on the Spokane Indian Reservation in Stevens County. The District provides educational services to approximately 420 students in kindergarten through 12th grade.

An elected, five-member Board of Directors governs the District. The Board appoints a Superintendent to oversee the District's daily operation as well as its approximately 81 employees. For fiscal year 2016, the District operated on a \$8.2 million annual budget.

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 Wellpinit School District No. 49 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
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