



Office of the Washington State Auditor  
Pat McCarthy

## Accountability Audit Report

# Port Angeles School District No. 121

Clallam County

For the period September 1, 2015 through August 31, 2017

Published May 21, 2018

Report No. 1021346





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

May 21, 2018

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 independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the 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 RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, except as described below, District operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

Because public distribution of tests performed and the related results over information technology could increase the risk to the District's IT security, distribution of that information has been limited to management and the governing body of the District and is kept confidential under RCW 42.56.420.

As referenced above, we noted certain matters that we communicated to District management and Board of Directors in a letter dated May 15, 2018, related to safeguarding of small and attractive assets. 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, 2015 through August 31, 2017.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the years ended August 31, 2017 and 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Associated Student Body (ASB) activities at Port Angeles High School – student council minutes, expenditures, fundraisers and student store
- Student basic enrollment reporting at Port Angeles High School
- Donations – controls and compliance with donors' instructions
- Tracking and safeguarding of small and attractive assets such as computers

- IT security for Skyward applications – password configuration, generic log-ins and employee access
- Procurement of public works projects – bidding and prevailing wage
- Payroll – approvals and payment calculations for extra hours worked
- Contract monitoring – Lincoln Center



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*Board of Directors • Joshua Jones • Cindy Kelly • William Kindler • Sandy Long • Sarah Methner*

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Port Angeles School District No. 121 Clallam County September 1, 2015 through August 31, 2017

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> 9/1/13-8/31/15	<b>Report Ref. No.:</b> 1016809	<b>Finding Ref. No.:</b> 2015-001
<b>Finding Caption:</b> The District did not have adequate controls over Skills Center contracts to ensure amounts due from participating governments were collected.		
<b>Background:</b> <b>Contracts</b> During our review of the Skills Center contracts, we found: <ul style="list-style-type: none"> <li>• 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 inter-local agreement.</li> <li>• 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.</li> </ul> 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.		
<b>Allocation of Costs</b> Our review of the allocation of Skills Center net losses and building expenses found: <ul style="list-style-type: none"> <li>• 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</li> </ul>		

\$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.

**Status of Corrective Action: (check one)**

Fully Corrected       Partially Corrected       Not Corrected       Finding is considered no longer valid

**Corrective Action Taken:**

*Response from Port Angeles School District*

*The skill center program was discontinued by the state and the district beginning with the September 1, 2018 school year. With this action, the following concerns no longer pertain, as they are specific to having a skill center program:*

- *Allocation of enrollment slots and preparation of an annual budget covering the proposed operation and financing, in compliance with the Skills Center inter-local agreement.*
- *Any operating losses, or collection of program loss allocation under the skill center program. Responsibility for such losses were disputed by other consortium members and deemed uncollectible. Any losses billed and recorded as receivables by the Port Angeles School District have been written-off.*

*The district has worked with Peninsula College and determined an appropriate formula for billing Peninsula College for shared expenses of the building such as utilities, custodial, and maintenance costs. With this new, agreed-upon formula, the District has billed and collected funds from Peninsula College for the shared expenses since July 1, 2015. Due to the complexity of the formula used in billing costs prior to July 1, 2015, any potential costs prior to that time, that may have been deemed under-billed, were disputed and not considered collectible.*

*Ownership of the building that housed the skill center program, now known as the Lincoln Center, still resides with Peninsula College and the Port Angeles School District. A new relationship and use of the building is being discussed with Peninsula College.*

*However, due to the current conversations and discussion regarding our relationship with Peninsula College and a new use of the building, the district has not felt it practical to:*

- *Revisit the 2003 Memorandum of Understanding. The district is planning to have a new*

*agreement in place with Peninsula College within the next year.*

- *Adhere to the terms of the 2004 condominium declaration, including establishment of an association, board, and bylaws.*

## 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 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, highly capable in elementary school, pupil transportation and food services. The District operates five elementary schools, one middle school, one high school and one 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. In the 2016-2017 school year, the District operated on an annual budget of approximately \$47.8 million.

<b>Contact information related to this report</b>	
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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.

<b>Contact information for the State Auditor's Office</b>	
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