



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

**Accountability Audit Report**  
**Lyle School District No. 406**  
**Klickitat County**

**For the period September 1, 2014 through August 31, 2017**

**Published May 21, 2018**

**Report No. 1021410**





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

May 21, 2018

Superintendent and Board of Directors  
Lyle School District No. 406  
Lyle, 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,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

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 areas we examined, District operations did not comply with applicable state laws, regulations, or its own policies. Additionally, the District did not provide adequate controls over safeguarding of public resources.

As referenced above and described in the attached findings, we identified areas in which the District could make improvements.

We recommended the District improve internal controls over disbursements to ensure appropriate use of public funds. Specifically, we recommended the District:

- Establish adequate monitoring procedures to ensure disbursements are made only for allowable and valid public purposes.
- Require and retain supporting documentation for all transactions to demonstrate the public purpose and compliance with applicable laws and District policies.

We also recommended the District improve internal controls over cash receipting and ASB activities. Specifically, the District should:

- Properly segregate cash receipting duties or implement adequate independent monitoring.
- Limit cash transfers between individuals, when possible, and document the custody transfers.
- Deposit all funds within the required time under the District's daily deposit waiver.
- Design processes that allow for an effective reconciliation of expected cash receipts to deposits, review of that reconciliation, and review of voided transactions.
- Ensure periodic inventories are performed.

These recommendations were included with our report as findings.

As referenced above, we also noted certain matters that we communicated to District management, Superintendent, and Board of Directors in a letter dated May 15, 2018, related to staff mix and procurement. We appreciate the District's commitment to resolving those matters.

## About the audit

This report contains the results of our independent accountability audit of Lyle School District No. 406 from September 1, 2014 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, 2016 and 2015, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Disbursements – general disbursements, credit cards, payments to employees
- Associated Student Body (ASB) activity – cash receipts, adjustments and voids
- Payroll – recalculation of gross wages, termination leave payouts, benefits
- Financial condition and fiscal sustainability
- Procurement of purchases for goods and materials
- Teacher education and experience (staff mix) reporting
- Enrollment reporting at Lyle High School

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2017-001    The District did not have adequate internal controls over disbursements and placed public funds at risk.**

#### ***Background***

In fiscal years 2015, 2016 and 2017, the District paid \$1.8 million, \$1.9 million and \$1.7 million, respectively, to vendors for operating expenses. District management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws and policies, and of the safeguarding of public resources. A lack of or inadequate internal controls can hinder the District's ability to prevent or detect misappropriation and to comply with laws and policies.

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

The District did not have adequate internal controls in place over general disbursement transactions to safeguard the use of public funds. The audit noted the following concerns:

- The District did not have adequate segregation of duties over the processing of accounts payable payments. Specifically, the Business Manager was able to process transactions and issue checks without adequate monitoring to ensure the transactions are for an allowable purpose.
- Reimbursements made to employees lacked adequate documentation to support the payments' validity and business purpose.
- The District did not retain documentation needed to support its disbursements.

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

The District has not dedicated sufficient resources to reviewing its own internal controls to ensure it has sufficient monitoring in place to prevent misappropriation and errors. Additionally, the District did not have appropriate controls in place to ensure that it retained sufficient evidence to support the allowability of general disbursements.

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

Without adequate internal controls and procedures over disbursement activities, the District cannot ensure payments are for an allowable public purpose and increases the risk that noncompliance, misuse, loss or misappropriation could occur and not be detected quickly, if at all.

We were unable to determine whether the following costs were paid for allowable purposes because the District did not maintain sufficient documentation:

- Payments totaling \$13,428 lacked receipts or other support to show what was paid.
- Invoices for a total of \$222 were supported with only summary-level receipts, not detailed receipts
- Travel costs of \$1,881 lacked adequate support to demonstrate the expense's purpose

### ***Recommendation***

We recommend the District improve internal controls over disbursements to ensure appropriate use of public funds. Specifically, we recommend the District:

- Establish adequate monitoring procedures to ensure disbursements are made only for allowable and valid public purposes
- Require and retain supporting documentation for all transactions to demonstrate the public purpose and compliance with applicable laws and District policies

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

*Lyle School District has overhauled the way accounts payable are processed. The Business Manager does not process any expenditures, (with the exception of utility payments) without prior approval, from Superintendent in the form of a signed purchase order, or in select cases, an email permitting payment. All documentation stays with the original invoice.*

*Reimbursements to employees, are more heavily documented, verified to be allowable, true, and regulated in cost. Documentation always needs to be submitted before payment is by Superintendent. (Documentation included, are receipts, emails, and maps showing true mileage) This is a complete turnaround in prior practice in the District.*

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

We appreciated the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

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

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

RCW 42.24.080 – Municipal corporations and political subdivisions – Claims against for contractual purposes – Auditing and payment – Forms – Authentication and certification.



## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2017-002    The District did not have adequate internal controls over cash receipting of Associated Student Body activities to safeguard public resources.**

#### ***Background***

District management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws and policies, and of the safeguarding of public resources. A lack of or inadequate internal controls can hinder the District's ability to prevent or detect misappropriation and comply with laws and policies. In the previous audit, we communicated concerns with management regarding the oversight of Associated Student Body (ASB) activities.

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

Districts may use ASB funds for optional and noncurricular activities that are cultural, athletic, recreational or social in nature, or to otherwise support activities and programs. The District reported ASB revenues of \$28,000, \$62,000 and \$41,000 in fiscal years 2015, 2016 and 2017, respectively.

Our review of the ASB activities identified the following control deficiencies:

- The employee responsible for cash receipting was able to void transactions without independent monitoring to ensure voids were valid and adequately supported.
- Manual receipts were used to record some transactions. The District did not have an independent process to reconcile all receipts issued to deposits.
- Cash was transferred between employees without adequate documentation to support that both parties agreed on the amount of funds transferred/received.
- The District did not perform reconciliations of expected revenues based on attendance at events, such as admissions into sporting events, to ensure all funds owed to the District were collected.
- A review was not performed to ensure all receipts were deposited for all ASB activities.
- The District was not tracking concession items sold. As a result, it was unable to ensure all funds owed were collected. Also, the District did not perform periodic inventories of concessions to ensure these items were accounted for.

- Deposits were not made within the limitations of the District’s daily deposit waiver.

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

The District did not dedicate the time and resources needed to ensure prior audit concerns were adequately addressed. Additionally, the District has experienced turnover in key positions.

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

The lack of internal controls and monitoring over transactions increases the risk that misappropriation or misuse of District resources could occur and not be detected promptly, if at all. Our audit identified the following:

- As a result of the District not tracking the activity for gate sales or sale of concessions at sporting events, we were unable to determine whether all funds were collected and deposited intact.
- We were unable to tie two of the five deposits tested to corresponding receipts. These two deposits exceeded receipts by \$544. It appears the District did not document receipts for two scheduled sporting events.
- Deposits tested were not made with the County Treasurer within one week of collection as required.

### ***Recommendations***

We recommend the District improve internal controls over cash receipting and ASB activities. Specifically, the District should:

- Properly segregate cash receipting duties or implement adequate independent monitoring
- Limit cash transfers between individuals, when possible, and document the custody transfers
- Deposit all funds within the required time under the District’s daily deposit waiver
- Design processes that allow for an effective reconciliation of expected cash receipts to deposits, review of that reconciliation, and review of voided transactions
- Ensure periodic inventories are performed

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

*Lyle School District has made the following changes to handling ASB cash, and record keeping;*

*If a receipt needs a correction or a void, two employee initials are being used*

*A "Verified By" portion has been added for a second review of all deposit of receipts that are made*

*Transfers of cash now contain a "Transfer of Custody: Section that includes a verification signature of the receiving party*

*Numbered tickets will be given with the purchase of each entry fee and the sequential numbers will be reconciled with the gate receipts. Discrepancies will be noted*

*We will implement a new system for ASB Activities.*

*ASB will preapprove the need for any cash boxes at ASB Activities (i.e. games, dances, concessions). This will be provided to the ASB Accounts Manager (Office Personnel) 1 week prior to any event. The ASB Approvals will be kept 2 fold*

*a. in the ASB minutes*

*b. approvals will be attached to each gate receipt*

*A concessions manager will be hired to take over concessions. Furthermore, the ASB leadership/treasurer will be responsible for ensuring a monthly inventory is completed, reconciled and filed with the ASB Accounts Manager (Office Personnel)*

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

We appreciated the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

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

RCW 43.09.240 - Local government accounting – Public officers and employees  
– Duty to account and report – Removal from office – Deposit of collections

RCW 28A.400.300 – Superintendent's duties

*Accounting Manual for Public School Districts in the State of Washington,*  
September 2013, Chapter 3 Accounting Guidelines, Internal Control Structure

WAC 392-123-010 – The accounting manual

# LYLE SCHOOL DISTRICT

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Lyle School District No. 406**

**Klickitat County**

**September 1, 2014 through August 31, 2017**

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

<b>Audit Period:</b> 09/01/2014 – 08/30/2015	<b>Report Ref. No.:</b> 1016873	<b>Finding Ref. No.:</b> 2015-001
<b>Finding Caption:</b> The District's internal controls over financial reporting were inadequate to ensure accurate grant reporting.		
<b>Background:</b> The fiscal year 2015 financial statement audit identified a significant deficiency in internal controls over financial reporting. The District's internal controls over the preparation of the Schedule of Expenditures of Federal Awards were not adequate to accurately report program information. Specifically, the District recorded School Improvement Grant funds expended under the Title I program number.		
<b>Status of Corrective Action: (check one)</b> <div><input checked="checked" type="checkbox"/> Fully Corrected      <input type="checkbox"/> Partially Corrected      <input type="checkbox"/> Not Corrected      <input type="checkbox"/> Finding is considered no longer valid</div>		
<b>Corrective Action Taken:</b> <i>Lyle School District has grant oversight, by ESD112. At the beginning of fiscal year, and during the fiscal year, check-ins with key staff are made, to ensure all grant claims are allowable, true, properly documented, and carried out.</i>		

<b>Audit Period:</b> 09/01/2014 – 08/30/2015	<b>Report Ref. No.:</b> 1016873	<b>Finding Ref. No.:</b> 2015-002	<b>CFDA Number(s):</b> 84.377
<b>Federal Program Name and Granting Agency:</b> School Improvement Grants – U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> The District does not have adequate internal controls to ensure compliance with federal School Improvement Grant requirements.			
<b>Background:</b> The fiscal year 2015 federal single audit determined the District’s controls were not adequate to ensure compliance with federal requirements for allowable costs, level of effort – supplanting, cash management, and procurement. The District did not maintain adequate support for some salaries and benefits costs and consulting services. Additionally, the District received an advance of federal funds and did not track the interest on the advance. The District also entered into two professional services contracts totaling \$40,050 and did not maintain support that they obtained bids, quotes, or that the services were available through a sole source.			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>Lyle School District regularly consults, with ESD112 in matters of employee costs, and allowable expenditures. Lyle SD is also in the process of reviewing all procurement policies, to be aligned with best practices.</i>			

## RELATED REPORTS

### 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

Lyle School District No. 406 serves 245 students in Klickitat County, from Pre-Kindergarten through 12th grade. The District operates three schools: an elementary school, middle school and high school located in Lyle. The District provides basic education, special education and transportation services.

The District is governed by a five-member Board of Directors, and employs approximately 16 certified and 25 classified staff. The District operates on an annual budget of approximately \$4 million.

Contact information related to this report	
Address:	Lyle School District No. 406 P.O. Box 368 Lyle, WA 98635
Contact:	Susan Carabin, Business Manager
Telephone:	(509) 365-2191
Website:	<a href="http://www.lyleschools.org">www.lyleschools.org</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Lyle School District No. 406 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>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>