



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Hockinson School District No. 98

Clark County

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

Published August 20, 2018

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

August 20, 2018

Superintendent and Board of Directors
Hockinson School District No. 98
Brush Prairie, 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.

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

We recommended the District implement controls over procurement and retain adequate documentation to demonstrate compliance with state procurement laws and District policy.

These recommendations were included with our report and in a separate communication as a finding.

About the audit

This report contains the results of our independent accountability audit of Hockinson School District No. 98 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:

- Enrollment reporting at Hockinson High School
- Reporting of teacher education and experience
- Procurement – public works projects, architectural and engineering services, and purchases

- Disbursements
- Payroll – recalculation of gross wages
- Cash receipting – community education, lunch receipting at Hockinson Middle School, and Associated Student Body (ASB) activities at Hockinson High School

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-001 The District could not demonstrate compliance with state laws for procurement.

Background

District management is responsible for designing, implementing and maintaining internal controls to ensure compliance with state laws. A lack of or inadequate internal controls can hinder the District's ability to comply with state laws.

Description of Condition

During the audit period, the District had significant construction activity, including the construction of a new middle school. We reviewed several contracts awarded during the audit period and identified the following:

- Although the District properly advertised and can describe the process it followed for awarding four architecture and engineering contracts totaling about \$2.2 million, it could not provide sufficient documentation to demonstrate the most qualified firm was selected for each project. Additionally, for three of the contracts awarded, the District could not provide evidence that evaluation criteria was established before receiving proposals.
- Although the District used a request-for-qualifications process to award a \$483,000 furniture purchase, it did not award the contract to the lowest bidder as required by state law. A request-for-qualifications process involves awarding contracts based on the vendor deemed to be "most qualified" versus the lowest bidder.
- Although the District could demonstrate it advertised request for quotes nationally for telecommunications equipment, it did not ensure compliance with state law by not advertising locally before awarding a \$66,000 contract.

Cause of Condition

The District was aware of procurement requirements; however, it did not fully understand all requirements and applicable state laws. In addition, it did not realize the need to maintain certain documentation to support their processes.

Effect of Condition

The District could not provide documentation to demonstrate it complied with procurement requirements for architectural and engineering services and awarded contracts to the most qualified firms. In addition, the District cannot support it received the lowest possible price on the purchase of furniture or telecommunications equipment.

Recommendation

We recommend the District implement controls over procurement and retain adequate documentation to demonstrate compliance with state procurement laws and District policy.

District's Response

In 2015 Hockinson School District passed a \$39 million dollar bond and (scheduled to) received \$7 million in state matching funds for multiple construction and procurement projects over the 3 years of this audit for the new middle school and high school improvements. These procurement projects listed below are embedded in the Capital Project Fund and do not affect the General Fund which is for teaching and learning (salaries, benefits and maintenance/operations) for the district. This magnitude of projects was a first for the District central office staff. The District does not have a procurement department and thus relies on legal counsel support and its highest level of interpretation of law and policy. The District was pleased that the audits for the construction contracts for the new middle school and high school improvements resulted in no findings.

The District's central office staff is committed to protecting the use of public funds while procuring products and services for the District. The District will consult with the state's school district audit team to confirm internal controls and it's compliance with state procurement laws.

Architect and Engineering Contracts

Criteria for A&E services is established in Board Policy 6925. RCW 39.80.40 states the District shall conduct discussions with one or more firms. Furthermore, contracts over \$25,000 are approved by the Board of Directors in an open public meeting.

Two of the four contracts the District sought Board approval by describing the project, the process for interviewing the firm(s), and providing a recommendation for hiring that firm as the highest qualified for the project. While the District did not use a bid matrix, which is not required by law, it did use a thorough vetting of the architect candidates for the new middle school and high school improvements. For the other two contracts, both under \$8,000, the District hired the engineers

that had previously worked on the high school when it was built and therefore those firms had the highest qualification for providing services at the high school.

For the new middle school architect contract of \$2 million: The District consulted with its legal counsel in all phase of the selection process. After appropriate advertisement two firms were selected for interviews. Those interviews were conducted by the Superintendent, in collaboration with a committee consisting of a consulting construction manager, and District personnel, including the Business Manager. During the interviews discussions were guided by criteria which were developed for deciding the most highly qualified architect firm for the proposed construction project. The criteria items were discussed with both firms. Committee members were invited to provide their input on the information elicited on the criteria items. Both architectural firms provided estimated project costs for their services. Deciding which firm is most highly qualified for the particular project is not a mathematical process. This case illustrates a choice made between two very highly qualified, school construction experienced, professional firms. Both firms were known to the construction consultant, an architect who for about 30 years had coordinated and overseen school projects in Western Washington. With the information gathered, selection of the most highly qualified architectural firm for a project comes down to a difficult decision based on good judgment. After consideration of the input of the committee and calling references provided by the firms, the Superintendent made that judgment as evidenced by her recommendation to the Board of Directors. In an open public meeting on February 23, 2015 the Superintendent submitted her recommendation of the highest qualified candidate and is recorded in the Board Meeting Minutes: “The firm we chose is in line with our vision and we were impressed with their commitment to the overall project and their experience in the permitting process. They are also close in proximity.” Unfortunately the auditors “just could not see how we got there” (Districts choosing of the highest qualified firm) because it did not have what auditors would typically see ~ a single piece of paper with a bid matrix.

References:

RCW 39.80.040: In the procurement of architectural and engineering services, the agency shall encourage firms engaged in the lawful practice of their profession to submit annually a statement of qualifications and performance data. The agency shall evaluate current statements of qualifications and performance data on file with the agency, together with those that may be submitted by other firms regarding the proposed project, and shall conduct discussions with one or more firms regarding anticipated concepts and the relative utility of alternative methods of approach for furnishing the required services and then shall select therefrom, based upon criteria established by the agency, the firm deemed to be the most highly qualified to provide the services required for the proposed project.

Hockinson SD Board Policy 6925: *When considering the acquisition of architectural and engineering services the board of directors will issue a notice in publication(s) of general circulation stating the general scope and nature of project(s) for which services are required. Effort will be made to inform firms who employ minorities and/or women. Interested firms will be requested to submit a statement of qualifications and performance data to enable the board to determine which architectural or engineering firm will best serve the needs of the district.*

Criteria for selection of a firm will include, but not be limited to, quality and breadth of staff, design of similar projects, production capability, supervision and quality control, relationship with clients, cost estimates and budget control.

The superintendent is directed to establish necessary procedures to solicit and screen qualified engineers and architects. The superintendent will recommend one or more firms to the board for its consideration. The board and the successful architectural or engineering firm will enter into a contract for the necessary services. In the event of an emergency, the board may waive this selection process and secure such services as needed.

Furniture Purchase

The District consulted with its legal counsel in all phase of the selection process. The District, staff, and students fully evaluated the product lines of 3 proposals submitted. The lowest cost proposal was not selected because it did not meet the education vision and needs of the District, staff and students. The District in this case accomplished the correct result in identifying the product with the quality which would benefit the public purse most because of its durability and functionality for educating children. The contract was awarded to the company that offered multiple seating options, solid built furniture and ease of maintenance. In addition, the seats and desks were picked with the latest brain research in mind.

Telecommunication Equipment

The District received 3 proposals and a grant of \$33,000 from the E-Rate program established for school districts. The Districts paid the other \$33,000. This well-established program advertises nationally. The proposal selected was based on the recommended grant bid matrix from the E-Rate program and the District procured the product from a local firm.

Auditor's Remarks

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

Applicable Laws and Regulations

RCW 39.80.050 – Contracts for architectural and engineering services

RCW 28A.335.190 – Advertising for bids – competitive bid procedures – purchases from inmate work programs – telephone or written quotation solicitation, limitations - emergencies

RCW 39.04.270 – Electronic data processing and telecommunications systems – municipalities – acquisition method – competitive negotiations – findings, intent

RELATED REPORTS

Financial

Our opinion on the District's financial statements 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>.

INFORMATION ABOUT THE DISTRICT

Hockinson School District No. 98 is located in Clark County and serves approximately 1,900 students in the kindergarten through 12th grade. The District operates one elementary school, one middle school and one high school.

An elected, five-member Board of Directors is the primary policy-making body exercising budgetary and financial control for the District. The District operates on an annual budget of over \$20 million and employs a staff of approximately 212 employees.

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 Hockinson School District No. 98 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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Main telephone	(360) 902-0370
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