



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Seattle School District No. 1

For the period September 1, 2017 through August 31, 2018

Published May 16, 2019

Report No. 1023788





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

May 16, 2019

Board of Directors
Seattle School District No. 1
Seattle, 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

TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	5
Related Reports.....	12
Information about the District.....	13
About the State Auditor's Office.....	14

AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, 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.

These recommendations are included with our report as a finding.

About the audit

This report contains the results of our independent accountability audit of Seattle School District No. 1 from September 1, 2017 through August 31, 2018.

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 year ended August 31, 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- School support organization – monitoring of a school support organization
- Cash receipting – handling and depositing of ASB and general fund revenues at seven schools
- Credit card payments – monitoring of credit card usage and compliance with District procedures and state laws
- Vendor disbursements – monitoring of employee reimbursements and compliance with District procedures

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-001 Seattle School District lacked monitoring controls to ensure established school support organization policies were followed, resulting in a potential District liability for the actions of support organizations.

Background

Seattle School District is governed by an elected seven-member Board of Directors. The Board encourages the formation of support organizations at schools to promote the cooperative effort of the public, families and schools in providing quality education in accordance with its policy.

Thornton Creek Elementary has about 600 students and has a support organization, the Thornton Creek Site Council, which serves as the governing body. The Thornton Creek Parent Group, a 501(c)3 non-profit organization, is a sub-group of the Site Council and serves as a fiscal arm of the Site Council. The Parent Group is responsible for coordinating fiscal activities of the school as outlined in the Parent Group Bylaws, while the Site Council is the administrative body representing the Parent Group.

The Parent Group's proposed budget from August 2018 to July 2019 was about \$316,000. The Parent Group collected over \$306,000 for the period from August 2017 to July 2018 from the following sources:

- Fundraising activities: \$245,000
- Classroom fee related to instrumental and choral music: \$12,000
- Classroom fee related to yearbook: \$7,900
- Donations: about \$21,500
- Gift-card donation: \$8,400
- Other income: \$9,900
- Interest income: \$260
- Grant income: \$1,000

Description of Condition

The District did not have monitoring controls in place to ensure the Thornton Creek Parent Group conducted activities in accordance with established District policies and procedures. Further, the District did not have an agreement with the Parent Group with clearly defined roles and responsibilities of both parties. This led to questionable activities by the Parent Group related to:

- Hiring of school staff assistants
- Parent Group bookkeeping
- Classroom fees
- Field trips
- Fundraising events
- Gift cards

Hiring of school staff assistants

The Parent Group entered into personal service contracts to directly hire school staff assistants without following the District's background check policy and applicable state laws.

The school staff assistants worked directly with students and were required to complete only the District's volunteer background check. They did not undergo the same fingerprinting background check or credential check required for District employees by policy, making the District potentially liable for any actions taken by the school staff assistants.

Further, the Parent Group compensated those school staff assistants as independent contractors. The District did not consider the school staff assistants contractors, employees, or volunteers.

Parent Group bookkeeping

The Nutrition Service employee at the school was responsible for collecting cafeteria funds for the School. The Parent Group also hired the same individual to perform the Parent Group's bookkeeping functions that included collecting and disbursing Parent Group funds on School property.

The School could not determine whether this employee was only performing the School functions during her regular scheduled work hours for the School. Because this individual was also collecting and disbursing Parent Group funds on the School's property, this created the appearance that funds collected were for the School and payments were made by the School.

Classroom fees

A classroom fee is the amount charged by the School to cover the cost of optional supplementary supplies, materials, or services to students. District policy requires that classroom fees must be voluntary for families. These funds are considered public funds and are to be deposited and reported in the School's General Fund.

The Parent Group accounted for and administered classroom fees collected for the School. The teachers determined the amount of the classroom fees, made direct requests to families, and collected fees with checks made payable to the Parent Group, circumventing district procedures

The fee request presented to families at the School did not state that fees were voluntary. Families were not given the option to opt out of certain items and activities to meet their individual preferences and needs. Further, the school did not follow District cash handling procedures, because these funds are considered public funds and should not be accounted for by the Parent Group.

Field trips

Field trip funds were collected from each student as part of the classroom fees and varied by grade level. Students paid an average of \$210 for field trips. Field trip fees are considered Associated Student Body funds, and the School should account for them according to District procedures, not the Parent Group.

In addition, the Parent Group did not ensure the field trip forms were properly completed, submitted promptly for review, and pre-approved by the Principal to follow District policy.

Further, the Parent Group paid the School directly for bus bookings for the field trips. It is unclear whether the trips were school sponsored or privately sponsored, making the District potentially liable for anything that happened on the field trips.

Fundraising events

The Parent Group raised funds through "Signature fundraising" events in which everyone participated, including students; "Everyday ways to fundraise" in which families leveraged their routine spending with scrip and other programs; and an "Annual Appeal and Standing Invitation" to make a donation.

The Parent Group did not follow District policy because the fundraising events were not properly categorized as school events or co-sponsored events.

For events that were co-sponsored, there were no co-sponsoring agreement between the School and the Parent Group to clearly define the responsibilities of each party.

Further, for co-sponsored events, the Parent Group did not always allocate a percentage of the Associated Student Body proceeds to the School as required.

In addition, the School's fundraisers were primarily organized and sponsored by the Parent Group. The Parent Group held some events on School property or during the school day with student participation and did not pay a facilities fee as required by District policy.

The Parent Group collected and accounted for these funds even when the events were organized on the school property. For one event, the students sold the crafts that were created during class projects using school supplies. The Parent Group should remit the sales to the School.

Gift cards

The Parent Group purchased gift cards from retailers at a discount and sold them to families at face value as a fundraising program. Many families would purchase gift cards and donate the gift cards to the School to support the School's students and families that might be experiencing a financial need.

As soon as they were donated to the School, those gift cards were considered School property. However, the Parent Group did not remit these funds collected to School.

Further, the District did not have a policy regarding how those donated gift cards should be solicited, controlled, monitored, and documented to ensure that they were used for a valid public purpose.

Cause of Condition

The School's former principal and the administrative staff circumvented District policies and procedures, allowing the school's Student Support Organization to not follow the policy related to Student Support Organizations. This led to a lack of a formal partnership agreement with the Site Council, no clear documentation of the Site Council's purpose, authority and responsibility, and violations of District policies and procedures.

Effect of Condition

The Site Council and Parent Group performed activities that exposed the District to increased liabilities and potential litigation. Specifically:

- **Hiring of school staff assistants:** People working with children might not have passed the required background check, exposing the children to potential risk and the District to potential litigation. Additionally it is possible the District would have been liable if the staff assistants were injured while working for the Parent Group.

- **Parent Group bookkeeping:** Because the Parent Group conducted its bookkeeping activities such as collecting and disbursing funds on the School property, it created an appearance that these funds were collected and disbursed by the School.
- **Field trips:** It was unclear whether the trips were school sponsored or privately sponsored, making the District potentially liable for any actions taken during the trip.
- **Classroom fees:** Involvement of District staff made these funds public funds that must be accounted for in a District bank account.
- **Fundraising events:** The events were not properly categorized nor did they follow the established policy, leading to improper fundraising practices. Involvement of District staff and students made it appear that the funds were public funds that should be accounted for in a District bank account.
- **Gift cards:** Without proper soliciting and accounting for donated gift cards, the practice might be interpreted as gifting of public funds by the School.

Recommendations

We recommend the District enter into an agreement with the Parent Group that clearly defines the roles and responsibilities of both parties.

We further recommend the District establish and follow controls to monitor the Parent Group's activities to ensure District policies and procedures as well as state laws are followed. Specifically the District should ensure:

- All people working with children passed the required state and District background check requirements.
- All paid School staff are hired by the District.
- The Parent Group's bookkeeping activities are conducted off School property.
- District policies are followed for field trips and fundraising events.
- Classroom fees are clearly marked as voluntary. Further, these fees should be collected and remitted to the School following District cash handling policies and procedures.
- All donated gift cards are properly solicited, controlled, monitored, and documented to ensure that they are used for a valid public purpose.

District's Response

The District concurs with this finding. We are working closely with the school and the support organization to ensure district policies and procedures are followed.

Auditor's Remarks

We thank the District for its commitment to correcting the condition described and will review the status during our next audit.

Applicable Laws and Regulations

RCW 28A.320.015 School boards of directors—Powers—Notice of adoption of policy for the Board of Directors to exercise the broad discretionary power to determine and adopt written policies not in conflict with other law that provide for the development and implementation of programs, activities, services, or practices.

RCW 28A.320.035 Contracting out- Board's powers and duties-Goods and services for contracting rights of the Board of Directors.

RCW 28A.320.040 Bylaws for board and school government for board of directors have the power to make bylaws.

RCW 28A.400.303 Record checks for employees and certain volunteers and contractors—Cost.

RCW 43.43.830 Background checks—Access to children or vulnerable persons—defines the background check requirement for staff dealing directly with children.

WAC 392-138-105 Fees optional noncredit extracurricular events for the Board of Directors to establish polices to collect a fee from students and nonstudents as a condition to their attendance at any optional noncredit extracurricular event of the district which is of a cultural, social, recreational, or athletic nature.

Policy 4120 School Support Organization defines the purpose of support organizations

Superintendent Procedure 4120SP School Support Organizations defines procedures for policy 4120

Policy 2320A Field Trip and Excursions: General Guidelines and Procedures for all Field Trips

Policy 6220sp Responsibilities for review approval, and execution of contracts and other agreements

Policy 5000 Recruitment and Selection of Staff

Policy 3520sp Student Fees, Charges, Fines, Restitution and Damage Deposits

Associated Student Body procedure manual

General and ASB funds cash handling procedures

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 reporting high school graduation rate data. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Seattle School District No. 1 serves more than 52,000 students and operates 11 high schools, 12 middle schools, 62 elementary schools, 10 kindergarten through eighth grade schools (K-8), and seven option schools with continuous enrollment.

District activities are monitored by an elected, seven-member Board of Directors. The Board oversees the governance of the District and appoints a Superintendent to oversee the District's operations. The District had General Fund expenditures of \$816.7 million for the 2017-2018 school year.

Contact information related to this report	
Address:	Seattle School District No. 1 MS 33-343 P.O. Box 34165 Seattle, WA 98124-1165
Contact:	Amy Fleming, Director, Accounting
Telephone:	206-252-0274
Website:	www.seattleschools.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for Seattle School District No. 1 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	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov