



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

PRIDE Prep Schools

For the period September 1, 2017 through August 31, 2019

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

April 1, 2021

Board of Directors
PRIDE Prep Schools
Spokane, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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 Charter Public School operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Charter Public School'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 value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Charter Public School operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Charter Public School could make improvements. These recommendations are included with our report as findings.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the PRIDE Prep Schools from September 1, 2017 through August 31, 2019.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Charter Public School's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended August 31, 2019 and 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – review employee contracts, compensated absences (vacation leave) accruals and balance tracking
- Student enrollment reporting – review for student eligibility in special education
- Disbursement testing – vendor payments, revolving credit accounts, controls over Electronic Funds Transfers (EFT)
- Public vs Private accounts – controls over the separation of accounts

- Cash receipting – review internal controls over petty cash and impressed funds
- Inventory – controls over tracking of assets
- Open public meetings – documentation of minutes, executive sessions, and expenditure approvals.
- Use of restricted funds – Professional Learning Allocation
- Subfunds – establishment of revenue and expenditure accounts
- Financial condition – review the financial health of the Charter School

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-001 Pride Prep Charter School had unclear policies and inadequate controls over payroll activities, resulting in altered documentation and miscalculated Compensated Absences.

Background

Pride Prep Charter School is a Charter Public School operating a middle and high school in Spokane. It opened in 2015. The Charter Public School operates under the Authorization of Spokane Public School District and is governed by an appointed 5–7 member board, and daily operations are overseen by the Superintendent.

The Charter Public School's Management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws, charter public school policies, and the safeguarding of public resources. A lack of or inadequate internal controls can hinder the Charter Public School's ability to prevent or detect misappropriation and to comply with state laws and school policies.

During fiscal years 2018 and 2019 the school received state funding of approximately \$3 million and \$4 million respectively, a combined \$3.3 million of which was spent in payroll.

In March 2019, the Charter Public School converted their Leave Tracking system from one software to another. The Business Manager was responsible for ensuring that leave earned and taken was calculated in compliance to Charter Public School policies and procedures and recorded accurately.

Description of Condition

The Charter Public School did not have effective internal controls and monitoring practices to ensure public funds were adequately safeguarded and spent on allowable activities in accordance with contracts and state laws. This resulted in 88 hours vacation leave beyond what staff earned, added to their account balance and 344 hours vacation leave earned by staff that was not credited to their account balance for fiscal year 2019.

Specifically our audit found that the Charter Public School:

- Did not have approved policies and procedures for leave, including accrual of vacation time.

- Did not annually reconcile compensated absences or maintain documentation to support allocations of leave.
- Did not have effective monitoring practices to limit access and ability to alter payroll records. This resulted in unauthorized staff accessing and recording changes in the payroll system without approval or oversight. A failure to limit access to payroll records increases the risk of unallowable leave approvals and other unapproved transactions within the payroll system.

Cause of Condition

The Charter Public School Board did not have adequate oversight and monitoring of payroll, including access to payroll accounts, adequate reviews of employee timesheets, leave accrual, and leave balance. Further, the Charter Public School Board did not have consistent policies and procedures applied to vacation leave and accrual.

The Charter Public School implemented a new software system in March 2019 and did not dedicate sufficient time and resources for the transition to the new software. A manual tracking system was used by the school for payroll, with insufficient oversight to ensure that accurate calculation and reporting of leave, as well as regular reconciliations, occurred. The information from old system, the new system, and the manual system did not agree.

The Charter Public School's policies related to leave balance accruals were inconsistent and changed each year, resulting in errors tracking and accruing leave hours. In addition, practices for tracking and accrual were not consistently supported by school policy. When guidance was available in policy, it was not consistently followed.

Effect of Condition

Our audit of vacation leave from September 1, 2017, through August 31, 2019, found the following:

- Staff members' leave accounts were over and under credited for leave.
- Vacation leave from previous years had not been transferred accurately, which led to staff members accruing more leave than was allowed.
- Staff took leave for more hours than was allowed by school policy.
- Posting more leave to staff accounts than earned by school policy, resulted in staff taking leave for more hours than appropriately earned.
- Inconsistent policies or contracts outlining accrual rates resulted in errors in the posting of leave balances.

The lack of controls and oversight to safeguard the Charter Public School's resources resulted in 88 hours vacation leave beyond what was earned by the staff, and 344 hours vacation leave earned was not credited to the staff for fiscal year 2019.

Recommendation

We recommend the Charter Public School's Board of Directors establish clear policies and procedures for Compensated Absences. In addition, staff should be trained and a knowledgeable employee should review the payroll data for accuracy and require appropriate supporting documentation be maintained. We also recommend the Charter Public School maintain complete and adequate records to support the appropriate use of public resources and comply with state laws and their charter contract.

Charter Public School's Response

Pride Prep contracted with Educational Service District 101 ("ESD 101") to support financial and operational processing and compliance, including the payroll function and data entry of employee time off into the system. During the course of this audit and the introduction of a new ESD system, school administration was made aware of shortcomings in the recordkeeping of time off. School administration has made the following changes to this process:

- PRIDE Schools reconciled all leave reports for returning employees, ensuring accurate records.
- In 2020-21 PRIDE Prep enacted a procedure requiring all employees to sign their leave report quarterly, which allows for regular reconciliation of leave.
- Pride further switched payroll systems and changed third-party providers. This automated, simplified and transparent system will allow easier recording and reporting of time off balances with fewer instances of manual interaction.
- Finally, Pride will initiate a review of the current time off policies and board review and approval of these policies. PRIDE will be using WSSDA policy recommendations to ensure compliance and industry expertise

Auditor's Remarks

We thank the Charter School for the steps it is taking to address these concerns. We will review the status of the Charter School's corrective actions during our next audit.

Applicable Laws and Regulations

Charter Public School Contract Section 4. Governance, states in part:

I. Record Keeping. The School will comply with all federal, state, and District record keeping requirements including those pertaining to students, governance, and finance.

Charter Public School Contract Section 15. School Finance, states in part:

A. Financial Compliance. The School shall comply with all applicable state financial and budget rules, regulations, and financial reporting requirements, ... The School shall also adhere to generally accepted accounting principles and be subject to financial examinations and audits as determined by the state auditor, including annual audits for legal and fiscal compliance.

B. Procedures and Controls. At all times, the School shall maintain appropriate governance and managerial procedures and financial controls which procedures and controls...

G. Policies. The School shall use and follow all policies and requirements issued by the Washington State Auditor's Office applicable to accounting for public school districts.

I. Maintenance of Records. The School shall maintain, or cause to be maintained, books, records, documents, and other evidence of accounting procedures and practices which sufficiently and properly reflect all direct and indirect costs of any nature expended in the performance of this Contract. These records shall be subject at all reasonable times to inspection, review, or audit by personnel duly authorized by the District, the Office of the State Auditor, and federal officials so authorized by law, rule, regulation, or contract. ...

L. Misc. Compliance. The School shall comply with any other applicable requirements imposed by law or regulation on charter school finances, budgeting, accounting and expenditures. The Parties agree that the School retains responsibility for compliance with all financial, budgeting, accounting, revenue and expenditure requirements imposed by law, regulation or District policy.

RCW 28A.710.040 Charter Schools – Requirements, states in part:

- (1) A charter school must operate according to the terms of its charter contract ...

RCW 42.56.100 - Protection of public records

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-002 The Charter Public School did not comply with the Washington State Constitution to safeguard public resources, resulting in a \$4,779 loan of public funds to another Charter Public School.

Background

Pride Prep Charter School is a Charter Public School operating a middle and high school in Spokane.

In the 2018-2019 school year, the Pride Prep Charter School Superintendent was contracted 1.0 FTE at Pride Prep. During this school year, the Superintendent was also contracted by Innovation Schools, doing business as Willow Public Schools, for consulting services, and was paid \$90,000 over a six month period. There was no interlocal agreement or contract between the two charter public schools.

Description of Condition

The Charter Public School Board did not have adequate oversight and monitoring over public funds to ensure they were adequately safeguarded and spent on allowable activities.

This resulted in \$4,779.39 in travel expenses, charged on Pride Prep Charter School credit card for multiple employees of Pride Prep when in travel status for consulting services by Innovation Schools for Willow Public Schools.

Cause of Condition

The Charter Public School did not have effective internal controls and monitoring practices to ensure public funds were adequately safeguarded and spent on allowable activities, in accordance with Washington State Constitution, state laws, and charter contracts.

Effect of Condition

The travel expenses were not for Pride Prep Charter School activities or services, resulting in overstatement of expenditures of \$4,779. Additionally, these credit charges may have resulted in interest charged to the Charter Public School for use of these funds for the benefit of another entity. Finally, the use of the credit card in this way renders those funds unavailable for use by the Charter Public School and a lending of credit prohibited by the Washington State Constitution.

Recommendation

We recommend the Charter Public School's Board of Directors establish policies and procedures over credit card use, maintain complete and adequate records necessary to provide reasonable assurance for public resources and comply with the Washington State Constitution, state laws and its contract.

Charter Public School's Response

PRIDE Schools had a Board Resolution that allowed some of its employees to provide contracting services with a separate Public Charter School for the purposes of professional development. Travel was mistakenly booked by employees using a PRIDE Prep credit card. PRIDE Prep immediately invoiced the other public charter school on April 20, 2019 for the expenses that were incurred in April 2019. Additionally, school administration notes that:

- a) Funds were repaid when the error was identified, and
- b) No interest or other expense was incurred by Pride Prep on behalf of the other Public Charter School

While such a transaction might not be unusual among 501c3 non-profit organizations, school administration is now aware that this violates Washington legal requirements. As such, new credit card protocols were put in place in the 2019-20 school year as the result of recommendations made by the SAO. This included an updated, more robust employee credit card use agreement and tighter controls on credit card check out. Additionally, we implemented a more stringent system for purchase approvals that requires additional signatures prior to the purchase being made.

Auditor's Remarks

We thank the Charter School for the steps it is taking to address these concerns. We will review the status of the Charter School's corrective actions during our next audit.

Applicable Laws and Regulations

Washington State Constitution Article VIII section 7: CREDIT NOT TO BE LOANED.

Charter Public School Contract Section 15. School Finance, states in part:

- A. Financial Compliance. The School shall comply with all applicable state financial and budget rules, regulations, and financial reporting requirements,...
- B. Procedures and Controls. At all times, the School shall maintain appropriate governance and managerial procedures and financial controls ...
- G. Policies. The School shall use and follow all policies and requirements issued by the Washington State Auditor's Office applicable to accounting for public school districts.
- K. Disbursements. The School shall establish procedures for ensuring that funds are disbursed for approved expenditures consistent with the School's budget.

Charter Public School Contract Section 22. Insurance and Legal Liabilities states in part:

- E. Faith and/or Credit Contracts with Third Parties. The School shall not have authority to extend the faith and credit of the District to any third party ...

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-003 Pride Prep Charter School has inadequate internal controls over maintenance of school records to ensure compliance with state laws, charter contract and to safeguard public resources, resulting in altered supporting documentation and unsupported payroll expenditures.

Background

During the course of the audit, we determined records provided by the Superintendent had been altered. These records included payroll documentation for compensated absences. Also, auditors faced restricted or limited access to school staff and source documentation.

During the audit period of September 1, 2017, through August 31, 2019, the charter public school received state funding totaling approximately \$7 million (\$3 million in the 2017-2018 school year, and \$4 million in the 2018-2019 school year).

Description of Condition

During the audit, Charter Public School staff impeded access to information and delayed responses to auditor inquiries. At least four reports for compensated absences were altered before they were provided to the auditors, meaning the information in those reports could not be relied upon for accuracy.

Additionally, an initial review of the June 2019 through February 2020 board approved meeting minutes found the minutes did not contain accounts payable information to support approvals reflected in the minutes. When auditors asked for the supporting material, school staff suggested auditors look to the school's website. Draft notes for board meetings were later provided to the auditor and they provided evidence of board approvals. A review of the minutes on the website found that:

- Actions taken by the Board were in draft minutes, but were not initially included in the board-approved minutes.
- Accounts payable approval information had been added to the previously approved board minutes for June 2019 through February 2020.

Auditing Standards, and the terms of the Engagement Letter signed by the Charter Public School at the beginning of the audit, required “unrestricted access to people

with whom the auditors wish to speak.” Restricted and limited access to charter public school staff limited the scope of the audit, creating a significant impairment to the auditors’ ability to fully evaluate the areas under review. Staff at Educational Service District (ESD) 101, a public entity that provides services to the Charter Public School, were instructed by the Charter Public School Superintendent not to speak with or respond to emails from the Auditor’s Office. The Superintendent further instructed ESD 101 staff that all audit requested information should be sent directly to the Superintendent rather than directly to the auditors.

The signed Engagement letter also requires information provided to our office be accurate and complete. Multiple reports for compensated absences had leave amounts that had appear to have been changed before providing a copy to the auditor. When auditors questioned the Superintendent about the suspected alterations, the Superintendent said they made changes to the copy of the system report with the goal of making the records more accurate.

We were able to overcome the impairment to our audit by obtaining supporting documentation and reports from the ESD 101 for verification of the charter school’s transactions for compensated absences and payroll leave.

Cause of Condition

The Pride Prep Charter School Board did not have controls in place to oversee management and safeguard public resources, and to comply with state laws and their contract. The Charter Public School Superintendent limited or restricted auditor access to charter public school staff and failed to provide original documentation, instead providing auditors with altered documentation.

Effect of Condition

Altering documentation and limiting information to the Board affects the Board’s ability to demonstrate business was conducted in a transparent manner and increases the risk that the quality, completeness, and organization of records may be more impaired than reported. These factors may compromise Pride Prep Charter School’s ability to prevent misappropriation or misuse of public resources, safeguard public assets, and complying with state laws and their contract in a timely manner, or at all.

Additionally, the combined effects of the attempts to limit the scope of our audit increased the amount of time and cost to complete the audit.

Recommendation

We recommend the Pride Prep Charter School Board establish consistent policies and procedures to strengthen internal controls and oversee management, allowing auditors unrestricted access to staff. Additionally, the Board and staff must maintain original source documentation and ensure all amendments to meeting minutes are publicly approved by the Board. This provides reasonable assurance the Board is safeguarding public resources and complying with state laws and the school's contract. When changes or updates are made to source documentation during an audit, the auditors must be notified.

Charter Public School's Response

Pride Schools appreciates the opportunity to reply and is committed to addressing the issues herein.

- At the board level, Pride Prep will ensure diligent retention of all required board documentation. Unrestricted access to employees and third-party providers will be provided as requested in future audits.
- At the administration level, the Superintendent would like to reiterate an intent to provide correct and corrected information to auditors throughout this process. The Superintendent will also ensure any such effort does not impede auditor access in future audits.
- At the documentation level, as noted in findings #1 and #2, school administration became aware of certain recordkeeping shortfalls during the course of this audit. In attempting to provide auditors with accurate and updated information, some reports were shared that were not clearly labeled as "Updated." In addition to the changes noted above, Pride Schools will clearly label any future source documents as "Updated" if any changes are made from the original version and communicate this to auditors.
- Finally, the PRIDE Prep Board has contracted with a third-party entity (Joule Growth Partners) to provide additional support in reviewing and presenting financial information. Joule Growth Partners has extensive experience in Chief and Director level financial leadership in the charter school sector, including experience in Washington for the duration of the charter sector. Joule will provide both transactional support and present CFO-level summaries to the board and administration on a monthly basis.

Auditor's Remarks

The highest level of decision-making authority in the Charter School is the Charter's Board of Directors. The Board has responsibility for the oversight and administration of daily operations of the Charter School. All formal action taken by the Board, including resolutions voted on and passed, must be clearly documented in the minutes. We thank the Charter School for the steps it is taking to address these concerns. We will review the status of the Charter School's corrective actions during our next audit.

Applicable Laws and Regulations

Charter Public School Contract Section 4. Governance, states in part:

I. Record Keeping. The School will comply with all federal, state, and District record keeping requirements including those pertaining to students, governance, and finance.

K. Open Meetings. The Charter Board shall maintain governing board-adopted policies, meeting agendas and minutes; shall make such documents available for public inspection; and shall otherwise conduct open meetings consistent with Chapter 42.30 RCW, the Open Public Meetings Act. Failure to comply with the Open Public Meetings

Act may be considered a material and substantial violation of the Contract.

Charter Public School Contract Section 9. School Operations, states in part:

A. In General. The School and the Charter Board shall operate at all times in accordance with all federal and state laws, local ordinances, regulations and District policies applicable to charter schools,...

D. Open Meetings and Public Records. The School shall maintain and implement policies to ensure that it complies with all applicable laws and regulations relating to public meetings and records.

O. Compliance. The School shall comply with all applicable federal and state laws, local ordinances, and District policies.

RCW 28A.710.040 Charter Schools – Requirements, states in part:

- (1) A charter school must operate according to the terms of its charter contract ...
- (2) (i) Comply with the open public meetings act in chapter 42.30 RCW and public records requirements in chapter 42.56 RCW.

RCW 42.30.035 Minutes, states in part:

The minutes of all regular and special meetings except executive sessions ... shall be promptly recorded and ... open to public inspection.

RCW 42.30.060 Ordinances, rules, resolutions, regulations, states in part:

- (1) No governing body of a public agency shall adopt any ordinance, resolution, rule, regulation, order, or directive, except in a meeting open to the public... Any action taken at meetings failing to comply with the provisions of this subsection shall be null and void.

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available on our website <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CHARTER PUBLIC SCHOOL

Pride Prep Charter School, located in Spokane County, provided educational services to approximately 396 students in grades 6-9 during the 2017-2018 school year, and 493 students in grades 6-10 during the 2018-2019 school year.

The Charter Public School is a 501(c)(3) nonprofit corporation established under RCW 28A.710.020 and governed by an three to 15 member appointed Board of Directors, that establishes policies for the Charter Public School according to the terms of a renewable, five-year charter contract executed under RCW 28A.710.160. Pride Prep is authorized by Spokane Public Schools established by a five-year contract effective July 1, 2016 and terminating June 30, 2021.

The Charter public school received approximately \$3.9 million for fiscal year 2018 and approximately \$5.5 million in direct state and federal funding for fiscal year 2019. The Charter Public School operates in one building and employs approximately 67 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 the PRIDE Prep Schools at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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