



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Vancouver School District No. 37

For the period September 1, 2019 through August 31, 2020

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

April 29, 2021

Board of Directors
Vancouver School District No. 37
Vancouver, 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 District 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 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 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, District 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 District could make improvements. These recommendations are included with our report as a finding.

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 Vancouver School District No. 37 from September 1, 2019 through August 31, 2020.

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 District'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 year ended August 31, 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Procurement – public works and cooperative purchases
- Compliance with public works projects – prevailing wages, change orders, retainage requirements
- Accounts payable – general disbursements and credit cards
- Use of restricted funds – professional learning and local revenues
- Associated Student Body (ASB) activities – fundraisers and refunds
- Payroll – gross wages, leave balances and accruals, and elective benefits

- Self-insurance for unemployment and workers compensation
- Tracking and monitoring of theft-sensitive assets, such as computers

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2020-001 The District did not have adequate controls in place to ensure compliance with state procurement laws.

Background

District management is responsible for designing, implementing and maintaining internal controls to ensure compliance with state laws. Missing or inadequate internal controls can hinder the District's ability to comply with state laws. Procurement laws are intended to prevent fraud, collusion and favoritism when awarding public contracts, and to promote openness in government.

State law requires the District to perform responsible bidder checks prior to accepting a winning bid for a public works project. These checks are designed to ensure contractors are properly licensed and registered with the state, have liability insurance, pay workers compensation to the state, pay prevailing wage and are not prevented from working on state contracts.

Any alteration to a project during construction that is not consistent with the original bid specifications is known as a change order. If change orders cause the project to vary significantly from the scope of the original contract, the change represents a separate project and should have its own separate competitive procurement process. In addition, District policy requires the District to use a formal sealed bid procedure for projects whose estimated cost is over \$100,000.

Description of Condition

During the audit period, the District had significant construction activity, including the modernization of several schools. We reviewed six contracts to ensure compliance with state laws and identified the following:

- A new responsible bidder requirement was added to state law effective July 2019. The District did not ensure its policies and procedures were updated to include the additional requirement when conducting responsible bidder checks.
- The District's process to manage and review change orders was not adequate to ensure any additions to the project aligned with original bid specifications and contract

Cause of Condition

The District did not have a process to ensure current responsible bidder requirements were checked prior to awarding public works contracts. Also, staff responsible for authorizing change orders lacked sufficient knowledge to determine if additional construction work represented a new project that required competitive bidding.

Effect of Condition

In July 2020, the District awarded three contracts totaling \$8,374,069, \$364,576 and \$148,740 to a bidder who did not meet all of the responsibility criteria in RCW 39.04.350 and was ineligible to be awarded public works contracts.

The District awarded a contract for classroom additions at an elementary school. As the project was nearing completion, the District approved a \$254,004 change order for work not related to the classrooms, including a remodel of the family resource center and entryway of the school. Because the work was not part of the original bid specifications, this change order should have gone through a separate procurement process to comply with competitive contracting requirements. When the District does not comply with state bid law requirements, it cannot guarantee all interested parties had the opportunity to bid or that the lowest possible price was obtained.

Recommendation

We recommend the District comply with state laws regarding public works projects and competitive bidding by ensuring all contractors meet responsible bidder requirements prior to award and all change orders are within scope of the original contract.

District's Response

Vancouver Public Schools (VPS) was disappointed to learn of the State Auditor's Office (SAO) decision to issue a finding at the conclusion of their audit of fiscal year 2019-20. VPS takes great pride in a long history of meeting the legal and accountability expectations of our stakeholders, without creating the administration-heavy, bureaucratic processes that consume excessive taxpayer resources and distract from our fundamental mission of educating children. We believe the last fourteen audits, without a finding, have appropriately recognized and commended this balance that delivers optimal value to both taxpayers and children.

VPS concedes that there was a technical deficit on one aspect of this finding. Staff in our Purchasing Department, which was not increased to accommodate the volume of activity after passage of our \$458M bond, was not aware that during the 2019 legislative session, a minor amendment to one of the many statutes governing bidding of public works contracts was passed. This amendment required construction firms to receive formal training from the Department of Labor and Industries prior to being considered a valid bidder. As a result, three bids from a contractor that provided the low bid were accepted approximately one week before our staff became aware of the statute amendment and the contractor received the training. VPS takes this minor oversight seriously and has committed to additional costs to receive a post legislative session briefing of all potential law changes. It is also important to note that our failure on this detail actually saved our taxpayers dollars, since we were able to accept the low bids.

VPS has greater concerns relating to the other element of finding, a single change order. The SAO finding document describes the District's process to manage and review change orders as inadequate. In reality the district has extensive processes, which depending on size and scope are executed by anywhere from 5-10 professionals dedicated to this work, scrutinizing change orders before they are approved.

The characterization is particularly troubling when considering the volume of change orders that have been executed over the course of over \$1 B in public works the district has overseen in the last twenty years which have previously been scrutinized by SAO. The review and approval process has not materially changed in these twenty years, as they were developed and overseen by the same senior district administrator during this time. VPS believes that the previous 14 audits, which judged the hundreds of change orders managed by these same procedures favorably, more appropriately reflects the quality of these controls.

Secondly, the finding seems focused on the fact that "the work (called for in the change order) was not part of the original bid specifications". SAO has been informed that, by definition, no change order is part of the original bid specifications. In that conversation, SAO seemed to indicate that it was not enough like the original bid specifications, in their judgement. When VPS staff pressed SAO to understand where any definition or metric to decipher such judgements is codified, SAO seemed to acknowledge it was purely subjective.

In closing, VPS has always enjoyed the on-going dialog with SAO both during annual audits and between them, as particularly complex issues arise. VPS has appreciated the respect that SAO has brought to these conversations that a perfect solution from purely an audit perspective is not always what will best serve our

taxpayers and children. Rather, nuanced conversations about practical, balanced solutions have proven to be in our collective interest in meeting the needs and expectations of our community. Although this audit fell short of those lofty, previous experiences, VPS is committed to fortifying this partnership in hopes of returning our conversations to more dynamic ideas and strategies to best serve our stakeholders.

Auditor's Remarks

We confirmed our assessment of the District's legal non-compliance with our assigned Assistant Attorney General with the Attorney General's Office. The District's statement that the requirements are subjective is incorrect, as those requirements are detailed in state law (RCW 39.04 and 28A.335.190). We encourage the District to seek legal counsel to ensure future compliance with state law.

It is the District's responsibility to have procedures to ensure compliance with state laws governing purchasing activity, including identifying a change order which constituted a separate project that should have been competitively bid.

We reaffirm our finding and will evaluate the District's corrective action taken during the next audit.

Applicable Laws and Regulations

RCW 39.04 – Public works

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

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>.

INFORMATION ABOUT THE DISTRICT

Vancouver School District No. 37 serves approximately 22,500 Clark County students, kindergarten through 12th grade. The District has four high schools, six middle schools, 21 elementary schools, two buildings that serve 6th through 12th grade, and six alternative programs.

An elected, five-member Board of Directors governs the District. Board Members are elected to staggered, four-year terms. The Board appoints a Superintendent to oversee the District's daily operations as well as its approximately 3,000 employees. For the 2019-2020 fiscal year, the District had revenues of \$405.7 million.

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 Vancouver School District No. 37 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.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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