



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Toppenish School District No. 202

For the period September 1, 2019 through August 31, 2021

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

November 21, 2022

Superintendent and Board of Directors
Toppenish School District No. 202
Toppenish, Washington

Report on Accountability

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.

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.

I strongly recommend the District Board of Directors and officials adhere to their civic responsibilities and work diligently to meet the expectations of their community and the broader Washington public.

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 some 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. However, we identified areas in which District operations did not comply or safeguard public resources.

We also identified areas where the District could make improvements. These recommendations are included with our report as findings.

We emphasize that the Board of Directors has a responsibility to provide appropriate oversight of District operations and officials.

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 Toppenish School District No. 202 from September 1, 2019 through August 31, 2021.

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 years ended August 31, 2021 and 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:

- Use of restricted funds – professional learning and local revenue for enrichment activities
- Compliance with supplemental contracts for enrichment activities
- Student enrollment reporting

- Payroll direct deposits – evaluate design of controls
- Payroll – gross wages, leave balances and accruals, leave cash outs and retroactive pay
- Self-insurance for unemployment
- Procurement – architect and engineer
- Accounts payable – credit cards, travel, and meal purchases
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Toppenish School District No. 202 September 1, 2019 through August 31, 2021

2021-001 The District lacked adequate oversight to ensure its disbursements and credit card payments were adequately supported and approved.

Background

The District spends about \$34.1 million a year on operating expenditures. District management is responsible for establishing internal controls and policies to ensure compliance with state law regarding disbursement activity.

Description of Condition

The District lacked oversight to ensure its policies and procedures over disbursements and credit card activity were adequate for safeguarding public funds. Specifically, we identified the following:

Wrestling trips

The District paid for five out-of-state and six in-state wrestling trips totaling \$41,620 and \$17,212, respectively (\$7,991 in fiscal year 2020 and \$50,840 in fiscal year 2022). The District does not have a formal policy establishing per diem rates for students traveling for school-related activities. Without this policy, we cannot determine whether students were provided the correct amount for meals when traveling.

We also identified the following concerns:

- The District paid for three trips totaling \$10,462 through the General Fund. The District should only pay for extracurricular activities out of the ASB Fund or, if approved by the Board, its local revenue subfund. The District recorded trips as professional development and teaching activities instead of extracurricular activities.

- The District paid for flights for two out-of-state trips totaling \$9,360 on behalf of a nonprofit organization for which the Superintendent is listed as a governor. The District later received reimbursement for these expenditures. The initial payments were made using a District credit card. Since the District was paying expenses on the nonprofit's behalf, this could be considered a lending of credit, which is prohibited by state law (Washington State Constitution, Article VIII, Sections 5 and 7).
- Three trips for lodging and dinners totaling \$3,024 did not have an attendee list. One of these trips was also missing an itemized receipt for \$183. The District subsequently provided an attendee list for two of these trips; however, the total number of attendees on one of these lists did not agree to number of people staying in the hotel.
- The Superintendent used the District's credit card to pay for coach and student athlete dinners after two state tournaments in fiscal years 2019 and 2022, totaling \$737 and \$1,051, respectively. The District did not have sign-in sheets showing who received these meals. In addition to receiving these meals paid through the District's credit card, the students and coaches also received per diem meals for the same dinners, totaling approximately \$1,185. Therefore, the students and coaches received more than the amount they were allowed under normal District procedures.

Superintendent credit card payments and reimbursements

During the audit period, the Superintendent made several trips alone and with other District employees or Directors. The District's Board-approved travel policy allows employees to be reimbursed for actual and necessary travel expenses; however, the District's written travel procedures allow it to reimburse employees for meals based on the state's per diem rate, which contradicts the Board-approved policy. The District was unable to provide evidence that the Board approved this procedure, or that it had otherwise amended the formal policy. In practice, the District either pays actual costs or per diem for meals, depending on the situation.

The District paid for nine out-of-state and three in-state trips for the Superintendent and other District employees, totaling \$42,234 and \$1,496, respectively (\$1,294 in fiscal year 2020, \$15,826 and \$26,609 in fiscal year 2022). Two of these trips were later cancelled and refunded through the District's credit card, totaling \$3,330. We identified the following concerns:

- Without independent review, the Superintendent approved his own food and beverage expense forms for 11 out of 24 months for both travel and in-town meal purchases.

- Eight trips totaling \$24,305 lacked documentation for the agenda or business purpose of the trip, and four credit card transactions on these trips lacked itemized receipts, totaling \$6,753. Without this information, the District could not verify at the time of payment that all expenses were appropriate. During the audit, the District subsequently provided agendas supporting the business purpose for these trips; however, it was unable to produce itemized receipts.
- The District reimbursed the Superintendent for a flight to Orlando, Florida, for \$517 without obtaining support. As a result of our inquiries, the District was able to determine that the trip had been cancelled. The Superintendent subsequently reimbursed the District for this flight after our inquiry.

We also identified other minor credit card charges and reimbursements that lacked itemized receipts totaling \$148, or support for the business purpose, totaling \$1,343.

Cause of Condition

District management did not prioritize developing proper policies and procedures to verify that transactions were supported and allowable. The Superintendent is the approver for administrative staff travel; however, the District did not establish adequate procedures for an independent review of the Superintendent's travel and credit card transactions. Further, District staff followed written travel procedures without making sure they agreed with Board-approved policies.

Effect of Condition

Due to the District's lack of appropriate policies and documentation, we cannot determine that all of its payments during the audit period were legal and allowable, or whether any potential loss or gift of public funds occurred.

Recommendation

We recommend the District:

- Ensure that it only pays extracurricular activities through the ASB Fund or, with the Board's approval, through the local revenue subfund
- Not pay for expenses on behalf of other organizations
- Determine whether it will reimburse employee travel based on actual costs or through a per diem rate, and obtain the Board's approval of an updated travel policy and written procedures that agree with the approved reimbursement method

- Establish a per diem policy outlining the procedures for reimbursing student meals related to District-sponsored travel
- Perform an independent review of disbursement and credit card activity for all employees, including the Superintendent, to verify that all transactions are for an allowable business purpose
- Obtain and keep sufficient documentation to support all transactions

District's Response

Toppenish School District concurs with the auditors' recommendations. The district has taken immediate action by examining current practices and policies regarding travel and credit cards and is in the process of strengthening internal controls and developing updated procedures and policies. Toppenish School District is committed to providing the necessary training to its employees to ensure compliance with state laws and regulations.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

Washington State Constitution – Article VIII, Sections 5 and 7 – Credit not to be loaned.

District Policy – 6213 – Reimbursement for Travel Expenses.

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

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

RCW 43.09.2855 – Local Governments – Use of credit cards.

Budgeting, Accounting and Reporting System (BARS) manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30.

Budgeting, Accounting and Reporting System (BARS) manual – Accounting, Expenditures, Purchase Cards, Sections 3.8.4.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Toppenish School District No. 202 September 1, 2019 through August 31, 2021

2021-002 The Board lacked oversight to ensure the Superintendent's pay and benefits were in accordance with an approved written contract.

Background

Toppenish School District No. 202 serves approximately 4,500 students in grades K-12. An elected, five-member Board of Directors governs the District. The Board is responsible for appointing a Superintendent to oversee the District's daily operations and employees. The District paid the Superintendent a total of \$279,162 in fiscal year 2020 and \$309,736 in 2021. District management is responsible for establishing internal controls to ensure payroll disbursements are accurate and allowable under state law.

State law (RCW 28A.400.010) requires the District's Board to approve a written contract for the Superintendent with a term not to exceed three years. If the Board authorizes a pay increase during the term of this contract, it should approve the increase through a written contract amendment. Further, if the Board authorizes additional pay for work that the Superintendent has already performed, this pay would be considered retroactive. State law (Washington State Constitution, Article II, Section 25) generally prohibits retroactive increases to employee compensation for services that have already been rendered. When awarding additional compensation, the District is required to demonstrate that employees had an expectation of earning additional pay before they performed the work and have met established performance goals. In addition, the District must have policies in place that establish the procedures for this type of compensation before the performance period starts.

Description of Condition

Our audit found the Board did not provide adequate oversight to ensure the District paid the Superintendent in accordance with terms of a written contract and that all payments to him complied with state law. The Superintendent's last established written contract was in effect from July 1, 2010, to June 30, 2013. This contract states that "any increase in annual salary made during the life of this contract shall be in the form of an amendment and shall become a part of this contract." Specifically, we noted the following:

Superintendent contract:

Since 2013, the Board has motioned and approved the extension of the Superintendent's contract each year without evaluating and formally approving the terms through a written amendment. This prevents the District and our Office from verifying that the Superintendent was paid in accordance with the intended and approved amount.

Salary increases:

The Superintendent received two salary increases each year for fiscal years 2020 and 2021. Each January, the Board approved one pay increase (2 percent in 2020 and 3 percent in 2021) when authorizing the extension of the Superintendent's contract. These increases for the Superintendent totaled approximately \$4,101 and \$6,501 for fiscal years 2020 and 2021, respectively. The Superintendent received a second annual increase in July of each year when the Board approved increases for specific types of employees. For example, in July 2020, the Board approved a 3.6 percent pay increase for the graduation specialist, principals and certified directors, classified supervisors, and classified administrative central office personnel. Further, in July 2021, the Board approved a 4 percent increase for a director, GEAR UP staff, central office staff and graduation specialist. These increases for the Superintendent totaled approximately \$7,530 and \$8,929 for fiscal years 2020 and 2021, respectively.

Our Office did not have enough information from the District to determine whether the Superintendent should have received the second pay increase each year with the groups listed, or that the Board was aware that the Superintendent received a second increase. Further, any pay increase needs to be in the form of an amendment to the Superintendent's contract. Since the District did not approve the increase in a written amendment, these salary increases were not allowable.

Retroactive compensation:

The District retroactively paid the Superintendent \$3,012 in fiscal year 2020 and \$4,248 in fiscal year 2021. The District was not able to provide documentation to support whether the Superintendent's additional compensation was allowable under state law, or whether the Board authorized the additional compensation for fiscal year 2020. Therefore, these payments totaling \$7,260 were not allowable.

Vehicle stipend:

The District paid the Superintendent an annual vehicle allowance of \$9,017, for a total of \$18,034 in fiscal years 2020 and 2021. According to the Superintendent's

last written contract from 2013, the District authorized an annual vehicle allowance of \$7,200; therefore, the District overpaid the Superintendent \$1,817 each year for this stipend, for a total of \$3,634.

Additionally, the contract language states that the vehicle stipend is to “cover all related costs including any travel outside of Toppenish School District.” However, in addition to the vehicle stipend, the District also reimburses the Superintendent for travel outside of the District. The District should not be paying him twice for the same expense. If the District intended for the stipend to only cover the Superintendent’s travel inside the District—and that he would be reimbursed for travel outside the District—the Board needs to adjust the contract to reflect this arrangement.

Phone stipend and internet reimbursement:

The District paid the Superintendent a cell phone stipend of \$160 (\$80 in August and \$80 in July) in fiscal year 2021 and a monthly reimbursement of personal internet charges totaling about \$540 each year; however, these payments were not included in his 2013 contract. Additionally, the Superintendent charged \$115 and \$119 on his District credit card for his cell phone bill in July 2021 and August 2021, respectively. The District should not be paying him twice for the same expense. Additionally, because the Board did not approve these stipends through his contract we consider these payments totaling \$934 to be unallowable.

Vacation leave balances and cash outs:

According to the Superintendent’s last written contract from 2013, he can accumulate a maximum of 240 hours of vacation leave from year to year, and is allowed to buy back up to a maximum of 15 days each fiscal year. During the audit period, the District lacked procedures to ensure that the Superintendent’s vacation leave balances did not exceed the maximum allowed limit or that leave buyouts agreed to terms of his contract. Specifically, we found:

- The Superintendent’s vacation leave balances were 774 hours and 854 hours at the end of fiscal years 2020 and 2021, respectively. These balances exceeded the allowed limit by 534 hours in 2020 and 614 hours in 2021.
- The Superintendent bought back 20 vacation days both in fiscal years 2020 and 2021, exceeding the contract maximum of 15 days allowed. As a result, the District overpaid the Superintendent’s vacation cash out by five days each fiscal year, with an estimated overpayment of \$4,775 each year.

Cause of Condition

District officials understanding was that when extending the Superintendent's contract, any changes could be written on the annual evaluation form instead of through a written amendment to the contract. Further, management did not perform due diligence to ensure that the District followed the terms of the Superintendent's last written contract and met requirements for retroactive payments.

Effect of Condition

The District's lack of control and oversight of its payroll functions increases its risk of misappropriation or misuse of public resources, as well as its risk of not being able to prevent and detect it, if at all. Without having a written amendments to the contract with the approved salary and contract terms, the District cannot demonstrate that the Superintendent received appropriate compensation. Additionally, the District did not comply with state law for contract requirements, and the Superintendent received \$7,260 in retroactive compensation—which is a violation of the state constitution—and \$9,343 for stipends and leave cash outs that were unallowable.

Recommendation

We recommend the District develop internal controls over payroll to ensure it adequately safeguards public resources and pays the Superintendent in accordance with an approved, written contract. Specifically, we recommend:

- The Board establish a contract amendment process that includes approving contract extensions in writing to be included with the original agreement. Amendments should outline the changes to the terms of the agreement and the authorized pay.
- The Board conduct additional legal review to determine if any further actions, such as repayment, are necessary or required by law
- The Board clearly approve retroactive payments, and only do so when allowed by law, so the District can demonstrate how they are appropriate under state law and its policy
- The District pay vehicle and cell phone stipends in accordance with contract terms
- The District implement procedures to ensure leave balances and buybacks comply with contract requirements

District's Response

Toppenish School District concurs with the auditors' recommendations. The district had already implemented changes to the superintendent contract process prior to the start of this audit and we will continue to strengthen our policies and procedures to ensure the contract amendment process is compliant with all state laws and regulations. As stated in the recommendations, the Toppenish School District Board of Directors will conduct a legal review to determine if any repayments are necessary or required by law.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

Washington State Constitution – Article II section 25 – Extra Compensation Prohibited.

Attorney General Opinion 1951 No. 66 – Apr 12 1951 – Retroactive Pay Increase for Municipal Employees.

RCW 28A.400.010 – Employment of superintendent – Superintendent's qualifications, general powers, term, contract renewal.

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

RCW 19.36.010 – Contracts, etc., void unless in writing.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Toppenish School District No. 202 September 1, 2019 through August 31, 2021

2021-003 **The District paid the former Vice Principal without a valid contract for wrestling coach duties that he did not perform.**

Background

State law (RCW 28A.400.200) requires school districts to enter into written supplemental contracts for additional duties related to enrichment activities, such as coaching student sports. District management is responsible for establishing internal controls to ensure payroll is adequately supported, contracts are in place, and employees perform the assigned duties before payment.

Description of Condition

The District paid the former Vice Principal \$7,108 to coach the high school wrestling team even though he did not sign a supplemental contract and did not perform any coaching duties. The District placed the former Vice Principal on paid administrative leave on May 23, 2021, restricting him from having any interactions with students and staff. While on administrative leave, the Board of Directors approved high school coaching assignments for the 2021-2022 school year on July 27, 2021, and listed him as the intended wrestling coach.

The high school wrestling season started in November 2021 while the former Vice Principal was on administrative leave. According to District records, the District initiated a Personnel Notice of Employment to contract with him for coaching in January 2022, which was two months after the season started and only two weeks before his employment was terminated. Although the former Vice Principal never signed the contract or performed any coaching duties, the District paid him \$7,108—the full amount of the contract—after terminating his employment. Additionally, the District was unable to provide any evidence that the Board knew about the contract and payment.

A summary of the timeline is as follows:

May 23, 2021	Vice Principal placed on administrative leave
July 27, 2021	District approves coaching assignments, and lists Vice Principal as intended wrestling coach

November 2021	Wrestling season begins
January 6, 2022	District initiates Personnel Notice of Employment
January 20, 2022	District terminates Vice Principal's employment
January 31 and February 28, 2022	District pays Vice Principal the full amount of his unsigned contract

Cause of Condition

The former Vice Principal had been the long-standing wrestling coach for the District. At the time he was placed on administrative leave, District officials said they did not anticipate that he would be unable to fulfill this role.

Effect of Condition

Without an approved supplemental contract, the District paid the former Vice Principal for coaching duties that he never fulfilled. Therefore, we determined this \$7,108 payment was unallowable.

Recommendation

We recommend the District enter into written, signed contracts with employees and require them to perform their duties before paying them. We also recommend the District ensure all supplemental contracts are approved by the Board. We further recommend the District conduct additional legal review to determine if any further actions, such as repayment, are necessary or required by law.

District's Response

Toppenish School District does not concur with the auditors' finding. The District understands that the auditors believe that the District paid a former vice principal the value of his wrestling coach contract without having a valid written contract in place. The District, however, believes that there was a valid written contract. The Board offered the vice principal the wrestling coach position and approved his contract in writing. The contract was sent to the high school for signature per district procedure, but because the vice principal was on leave he did not sign it—that doesn't mean there wasn't offer and acceptance though. And although the vice principal never performed his duties as wrestling coach because he was on paid administrative leave, the District believed it had an obligation to pay him the value of his contract because he was on paid administrative leave. Furthermore, the fact that the vice principal was paid the value of his contract after his termination was

in line with any employee who separates from the school district and is owed salary or payment, regardless of the nature of the separation.

Moreover, in determining to pay the vice principal the value of his coaching contract, the District weighed the financial risks associated with him filing a wage withholding lawsuit against the value of his coaching contract. There's considerable financial risk associated with a wage withholding lawsuit. For starters, regardless if the suit has merit, the District must bear the cost of defending itself against the suit—a cost that would easily exceed the value of the coaching contract. Then if the vice principal prevailed, he would be entitled to double damages and attorney's fees. (RCW 49.52.070) Weighing those costs against the value of the coaching contract, the District believed it was financially responsible to pay the value of the contract—avoiding greater financial risk.

Auditor's Remarks

Although the Board approved the appointment of coaching assignments before the school year, there is no evidence that the Board approved the Vice Principal's wrestling contract. Additionally when placed on administrative leave, the Vice Principal was not contracted to perform wrestling duties for the fiscal year 2021-2022 school year. The District paid him for services that were not performed and were not under contract. We reaffirm our finding and will follow up on the status of the condition during the next audit.

Applicable Laws and Regulations

RCW 28A.400.200 – Salaries and compensation for employees – Minimum and maximum amounts – Limitations – Supplemental contracts.

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

Toppenish School District No. 202 September 1, 2019 through August 31, 2021

2021-004 The District conducted business with a nonprofit organization that District administrators held governing roles with, and did not establish terms and conditions of the relationship in a written agreement.

Background

The District conducts business with a nonprofit organization to engage, involve and encourage youth in the community to make the right choices, create opportunities for them as a counterpoint to gang involvement, and to pursue community enrichment and development opportunities. In particular, this nonprofit assists the District in paying for out-of-state tournaments for the high school wrestling team, as well as other community-building events. The activities that the organization funds are initially paid for by the District, and are later reimbursed by the nonprofit. During the audit period, the nonprofit reimbursed the District for \$9,909 in expenditures.

The Superintendent was listed in the organization's 2010 Articles of Incorporation as one of its directors (now called governors), and has continued in this capacity since that time. The District's Business Manager is also listed as a governor and registered agent, and is responsible for preparing the organization's annual report.

Description of Condition

The District did not properly establish an agreement with the nonprofit organization to establish terms and procedures when conducting business. Further, the District does not have procedures in place to prevent a conflict of interest or ensure that it does not lend credit to the organization. Specifically, we identified the following:

- In their positions as District administrators and governors of the nonprofit organization, the Superintendent and Business Manager are involved in making decisions on behalf of both parties at the same time. This may be a conflict of interest under state law (RCW 42.23.030).

- The nonprofit organization conducts business meetings twice per month in a conference room at the District office, during school hours, which gives the appearance that these meetings are District activities. Additionally, several District employees, including the Superintendent, the Business Manager, and others attend these meetings during work hours without taking leave. While employees can attend the nonprofit organization's meetings during their personal time, this is not an appropriate use of their paid District time.
- The District paid four transactions totaling \$9,909 in expenditures on the nonprofit's behalf. The District later received reimbursement for these expenditures. The initial payments were made using a District credit card. Since the District was paying expenses on the nonprofit's behalf, this could be considered a lending of credit, which is prohibited by state law (Washington State Constitution, Article VIII, Sections 5 and 7).

Cause of Condition

District management said this business relationship was valuable to students, and they did not think that an agreement needed to be in place or that the nonprofit's meetings should be held outside of normal business hours. Additionally, because policy allows the administrators to attend the organization's meetings as District representatives, management did not understand that the Superintendent and Business Manager may have a conflict of interest because they hold key roles in the nonprofit. Further, management did not understand state laws prohibiting credit lending and, as a result, thought it was appropriate to pay for the nonprofit's expenses as long as it reimbursed the District.

Effect of Condition

Without clearly identifying its business relationship with the nonprofit organization through a formal agreement, the District is not complying with state law and cannot determine whether the related expenses are for District activity or the nonprofit's operations. Also, the District may have violated state laws prohibiting lending of credit. Additionally, because the Superintendent and Business Manager are both governors for the nonprofit and District administrators, a conflict of interest may exist in any decision or vote that they make.

Recommendation

We recommend the District establish an agreement with the nonprofit organization to identify the relationship, set terms, and establish procedures when conducting business. Further, we recommend the District establish and implement policies and

procedures over separation of duties related to roles and activities between nonprofit organizations and the District.

District's Response

Toppenish School District does not concur with the auditors' finding.

The business transactions at issue with the non-profit are not an example of a system failure, rather they are examples of how internal controls are working properly at Toppenish School District. This was an error by an employee that was recognized immediately by the business department and corrected in a timely manner. In both instances, separated by a year each, the transactions were immediately flagged and corrected. The first instance was corrected on the same day; the second instance was flagged and corrected within a week. No lending of credit occurred in either instance as both the charge and reimbursement were receipted in the same reporting period and cancelled each other out. Furthermore, outside of these two instances, no other examples of this error occurred in FY20, 21, and 22. It is not reasonable to hold these two errors as proof that there is a business relationship between the district and non-profit; no such business relationship exists.

Furthermore, though the auditors may believe it's not prudent for the superintendent and business manager to be governors of the nonprofit organization and administrators of the District at the same time, there is nothing that indicates that a potential conflict of interest exists under RCW 42.23.030. That statute narrowly defines what constitutes a conflict of interest. It states:

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such a contract from any other person beneficially interested therein.

For a conflict of interest to exist under that statute, there must be a contract for the administrator to be beneficially interested in or for the administrator to receive a gratuity or reward in connection with. Since there is no contract between the District and the nonprofit organization, there is no contract in which either the superintendent or the business manager could be beneficially interested in or in which they could accept a gratuity or reward in connection with.

Regardless of whether there is a contract, neither the superintendent nor the business manager is beneficially interested in the relationship between the District

and the nonprofit organization. Neither of them is getting personal financial benefits because of the relationship. It's not as though the District is paying the nonprofit organization for some service and that the superintendent and business manager are personally profiting from that payment. Actually, the nonprofit organization isn't getting any pecuniary benefit from its relationship with the District—which means neither are the superintendent or the business manager in their roles as governors. And although the District may be receiving donations from the nonprofit organization, neither the superintendent nor the business manager is personally benefitting from those donations.

Further, even if there was a contract between the District and the nonprofit organization, the mere fact that the superintendent and business manager are administrators of the District and governors of the nonprofit organization would not in and of itself constitute a conflict of interest. In fact, RCW 42.23.040 contemplates situations where a district administrator could also be a non-salaried officer of a nonprofit organization with which the District has a contract. In that situation, the administrator's interest in the contract would be considered remote. Accordingly, at most, the superintendent and business manager have a remote interest in the District's relationship with the nonprofit organization—which is permissible.

Auditor's Remarks

Our audit identified District resources were used to pay for non-District transactions on four separate occasions, which is considered a lending of public credit and was not an isolated occurrence. Further, in their positions as District administrators and governors of the nonprofit organization, the Superintendent and Business Manager are involved in making decisions on behalf of both parties at the same time, which may be a conflict of interest. We reaffirm our finding and will follow up on the status of the condition during the next audit.

Applicable Laws and Regulations

Washington State Constitution – Article VIII, Sections 5 and 7 – Credit not to be loaned.

Attorney General Opinion 1993 No. 18 – Relationship between universities and nonprofit organizations that engage in fund-raising activities for them.

RCW 42.23.030 – Interest in contracts prohibited.

RCW 19.36.010 – Contracts, etc., void unless in writing.

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

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 program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report.

INFORMATION ABOUT THE DISTRICT

Toppenish School District No. 202 provides educational services to approximately 4,500 students in kindergarten through 12th grade in Yakima County. District services include a full range of school programs including basic elementary, middle school, high school, vocational education, alternative schools, bilingual education, pupil transportation, food services, special education and numerous special programs for remedial and enriched education.

The District is governed by an elected, five-member Board of Directors. The Board appoints a Superintendent to oversee the District's daily operations as well as its 500 employees. For fiscal years 2020 and 2021, the District operated on annual revenues of approximately \$68.5 million and \$78 million, respectively.

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 Toppenish School District No. 202 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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