



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Shelton School District No. 309

For the period September 1, 2020 through August 31, 2022

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

August 31, 2023

Board of Directors
Shelton School District No. 309
Shelton, 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

Americans with Disabilities

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TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Related Reports	9
Information about the District.....	10
About the State Auditor's Office.....	11

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.

We also noted certain matters related to annual report filing that we communicated to District management and the Board of Directors in a letter dated August 24, 2023. We appreciate the District's commitment to resolving those matters.

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 Shelton School District No. 309 from September 1, 2020 through August 31, 2022.

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, 2022 and 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Financial condition – reviewing for indications of financial distress
- Accounts payable – general disbursements and credit cards
- Student enrollment reporting – basic education

- Use of restricted funds – professional learning and local revenue for enrichment activities
- Compliance with supplemental contracts for enrichment activities
- Payroll – gross wages and overtime
- Annual report filing – timeliness and completeness of financial reports
- Open public meetings – compliance with minutes, meetings and executive session requirements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Shelton School District No. 309 September 1, 2020 through August 31, 2022

2022-001 The District's financial condition puts it at risk of being unable to meet financial obligations and maintain current service levels.

Background

An elected, five-member Board of Directors governs the District. The Board appoints a superintendent to oversee the District's operations as well as its staff of 626 employees. The District serves approximately 4,300 students, and for the 2021-2022 school year, its operating revenues and expenditures were about \$80.7 million and \$81.6 million, respectively. The Board adopted a minimum fund balance policy, setting a goal of 9 percent of the current year expenditures to address potential general fund needs and to maintain an acceptable and adequate minimum fund balance for district operations.

Description of Condition

The District's fund balance has declined in three of the last five years, with a significant decrease in fiscal year 2022, as shown below:

Ratio	2018	2019	2020	2021	2022
General fund balance (millions)	\$4.19	\$2.57	\$2.65	\$2.94	\$1.53
Change in fund balance	-22%	-39%	3%	11%	-48%

Because of the continuing declines, at the end of fiscal year 2022, the District was only able to sustain seven days of operating expenditures. In addition, the District has relied on the use of registered warrants, a short term borrowing instrument, to prevent monthly budget deficits, registering approximately \$40.1 million from January 2022 through May 2023, costing over \$12,000 in interest expense.

The District received \$6 million in federal funding related to the pandemic that had primarily been used to fund salaries. Going forward the District plans to fund those salaries with other existing state and federal funding, making those funds unavailable for other uses.

Even with the additional pandemic related federal funding the District has not met its minimum fund balance policy of 9 percent for any of the last five years, as shown below:

Ratio	2018	2019	2020	2021	2022
Fund balance to expenditures	6.9%	3.9%	4%	4.4%	2%

Cause of Condition

The District's expenditures have increased faster than its revenues and the District has not taken necessary steps to reduce expenditures to ensure it can meet internal financial standards, such as minimum fund balance expectations.

Effect of Condition

The District's financial condition puts it at risk of not being able to sustain operations or continue providing the same level of services.

Recommendation

The District is aware of its declining financial condition and is taking steps to make improvements. However, we recommend the District work closely with Educational Service District No. 113 and the Office of Superintendent of Public Instruction to improve its financial condition. We also recommend the District's Board of Directors establish a formal written comprehensive plan to address its financial condition and closely monitor financial operations to ensure it can meet its financial obligations.

District's Response

The Shelton School District does not agree with the statement in the "Description of Condition" that the district has relied on the use of registered warrants to prevent monthly budget deficits.

Beginning in January 2022, the Mason County Treasurer changed their procedures forcing the district to register the ACH warrant that must be issued one day prior to payroll for the district's direct deposit. The warrant is registered normally for one day. If the ACH warrant is deposited on a Friday then the district registers the warrant for three days. The Mason County Treasurer did not require this prior to January 2022. Until the district has a daily cash balance of at least \$3 million we will continue to register the ACH warrant.

The district has started to redirect state and federal dollars to fund salaries that were partially covered by ESSER funds.

The district Superintendent, Assistant Superintendent, Executive Director of Teaching and Learning, and the Finance Manager meet monthly to go over the state and federal program funding and expenditures. The district also started an accounts payable spreadsheet to track monthly expenditures more accurately. The District has also worked closely with Educational Service District No. 113 in the 2022-2023 fiscal year.

The district will continue to monitor all expenditures and revenue closely during the 2023-2024 fiscal year to improve the financial condition.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and the steps it is taking to address these concerns. We will review the corrective action taken during the next regular audit.

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 a lack of internal controls to ensure compliance with Emergency Connectivity Funds program requirements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Shelton School District No. 309 provides a full range of school programs to approximately 4,268 students in kindergarten through 12th grade. The District provides services in eight schools including basic elementary, middle school, high school, vocational education, alternative education, bilingual education, pupil transportation, food services and special education.

An elected, five-member Board of Directors governs the District. Board Members serve staggered, four-year terms. The Board appoints a Superintendent to oversee the District's day-to-day operations as well as its approximately 330 certificated and 296 classified employees. The District operated on annual budget of approximately \$83.9 million and \$83.3 million for the 2021-2022 and 2020-2021 school years, 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 Shelton School District No. 309 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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