



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Almira School District No. 17

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

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

December 14, 2023

Board of Directors
Almira School District No. 17
Almira, 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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TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	5
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, the District was unable to provide sufficient documentation in support of transactions to allow us to perform procedures necessary for us to conclude on the areas selected. On October 12, 2021, the building that houses the District was destroyed by a fire. This was where all original copies of supporting documentation were kept, as well as the District's backup server that stored digital copies. Without these documents, we were unable to determine the extent to which District operations complied with applicable state laws, regulations and its own policies, or established adequate controls to safeguard public resources.

As referenced above, we identified areas where the District should 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 Almira School District No. 17 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:

- Payroll – leave cash outs
- Use of restricted funds – professional learning
- Establishment of local revenue and expenditure accounts
- Compliance with supplemental contracts for enrichment activities
- Open public meetings – compliance with minutes, meetings and executive sessions
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Almira School District No. 17 September 1, 2020 through August 31, 2022

2022-001 The District did not have adequate records supporting financial transactions, which prevented our Office from performing some audit procedures.

Background

Management is responsible for designing and following internal controls that provide reasonable assurance the District is complying with state laws and policies, as well as safeguarding public resources. Management is also responsible for the integrity and retention of the District's original supporting documentation for employment contracts and disbursements.

In prior audits, the District has been able to provide supporting documentation at our request, and has not received any audit recommendations about records retention. However, on October 12, 2021, the building that houses the District was destroyed by a fire. This was where all original copies of supporting documentation was kept, as well as the District's backup server for digital copies. Due to this extraordinary event, our Office was not able to audit disbursements and the majority of payroll.

Description of Condition

The District could not provide supporting documentation for any disbursements, supplemental contracts, or signed employment contracts from before the date of the fire.

Cause of Condition

The fire destroyed the building where the District stored its physical records and backup server for digital copies as of October 12, 2021.

Effect of Condition

Without original records, we could not verify the District's disbursements including payroll and supplemental contracts during the audit period complied with all requirements and were valid and reasonable.

Recommendation

We recommend the District dedicate resources to establishing a records retention system that ensures the protection and retention of physical and electronic records supporting documentation.

District's Response

A devastating fire struck Almira School District on October 12, 2021. All records were destroyed in the fire. Almira's new building has been designed with a fireproof space where all records will be kept in the future. Additionally, electronic files are now being backed up to the cloud as well as storage drives stored in the safe instead of a local network server.

Auditor's Remarks

We appreciate the District's commitment to pursue options for retaining original records and to resolve this finding. We thank the District for its cooperation and assistance during the audit and will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Accounting Manual for Public School Districts in the State of Washington, the Office of Superintendent of Public Instruction's prescribed accounting manual for schools, requires supporting documentation to be retained.

WAC 490-105-200 – Minimum requirements for record retention.

Public Schools (K-12) Records Retention Schedule, version 8.4

Local Government Common Records Retention Schedule, version 4.2

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Almira School District No. 17 September 1, 2020 through August 31, 2022

2022-002 The District did not have adequate controls in place to ensure payments to the Superintendent were appropriate.

Background

Almira School District No. 17 serves about 83 students in Lincoln County. An elected, five-member Board of Directors is responsible for appointing a Superintendent to oversee the District's daily operations. According to payroll reports available for audit, the District paid the Superintendent \$147,153 in the 2019–20 school year and \$201,476 in the 2020–21 school year. The Superintendent accrues one sick day per month, or 96 hours per year, with a maximum accrual of 180 days or 1440 hours.

District management is responsible for establishing internal controls to ensure payroll disbursements are accurate and adequately supported. The District's Board is responsible for approving all expenditures, including leave payouts.

In October 2021, a fire destroyed all the District's paper copies of supporting documentation and its backup server that stored digital copies of these records.

Description of Condition

Our audit found the District lacked adequate internal controls to ensure the Superintendent's sick leave payouts were adequately supported.

Between February 26, 2021, and June 30, 2021, the District paid \$75,986.10 in seven separate sick leave payouts to the Superintendent. Due to the fire, the District had limited records available to support these sick leave payouts. Based on our review of the leave accrual reports and pay stubs, we noted the following:

- The Superintendent was allocated 336 hours of additional sick leave on February 1, 2021, and an additional 32 hours of sick leave on January 1, 2019. These allocations were in addition to the annual accrual of 96 hours.
- Leave accrual reports showed the Superintendent was paid out 1385 hours of sick leave, however, pay stubs showed 1574 hours of sick leave were paid.

Three different rates – \$28.85, \$38.75 and \$75.00 – were used to calculate the payouts of sick leave. None of these rates agreed to the Superintendent’s regular pay rate or proportion thereof.

Cause of Condition

Although these payments were presented to the Board for approval, it did not have a process in place to adequately review them before payment.

Effect of Condition

The District’s lack of controls and oversight of its payroll functions increases its risk of misappropriation or misuse of public resources. Without adequate support, we could not determine whether \$75,986.10 in sick leave payouts to the Superintendent were appropriate.

Recommendation

We recommend that the District develop and implement internal controls over all payroll transactions including leave payouts to ensure they are accurate and appropriate.

District’s Response

The previous superintendent left the district in June of 2021 and the previous business manager left in August of 2022. Our current superintendent and business manager are very much aware of rules outlined in WAC 392-136-20 - Conversion of Sick Leave upon Separation of District Employment and will ensure compliance with such rules.

When our current superintendent retires in June of 2024, all provisions of sick leave conversion for compensation will be well documented and communicated with the school board. Additionally, sick leave, personal leave, and vacation leave will be reviewed for all staff members by both the business manager and superintendent. This review will occur when initial allocations are made, when the attendance incentive program is recognized in the spring, and again at the end of the school year to review outstanding balances. Leave data will also be shared with school board members.

Auditor's Remarks

We appreciate the District's transparency with this issue, and their pursuit of best practices in regards to future leave payouts. We want to thank the District for its cooperation and assistance during the audit and will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Washington State Constitution, Article II, Section 25, Extra Compensation prohibited.

RCW 41.06: State Civil Service Law

Accounting Manual for Public School Districts in the State of Washington

Public Schools (K-12) Records Retention Schedule, version 8.4

Local Government Common Records Retention Schedule, version 4.1

INFORMATION ABOUT THE DISTRICT

Almira School District provides educational services to about 83 students in Lincoln County. The District has one school that serves kindergarten through twelfth grade students living in Almira and Hartline.

The District is governed by a five-member Board of Directors who appoints a Superintendent to oversee the daily operations. For the 2021-2022 fiscal year, the District operated on an annual budget of about approximately \$3.6 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 Almira School District No. 17 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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