



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Wellpinit School District No. 49

For the period September 1, 2022 through August 31, 2023

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

May 30, 2024

Superintendent and Board of Directors
Wellpinit School District No. 49
Wellpinit, 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
Summary Schedule of Prior Audit Findings	10
Related Reports	13
Information about the District.....	14
About the State Auditor's Office.....	15

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 Wellpinit School District No. 49 from September 1, 2022 through August 31, 2023.

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, 2023, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – credit cards and travel expenditures
- Payroll – gross wages, leave balances and accruals
- Use of restricted funds – professional learning and local revenue for enrichment activities
- Compliance with supplemental contracts for enrichment activities
- 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

Wellpinit School District No. 49 September 1, 2022 through August 31, 2023

2023-001 The Board lacked oversight and documentation to ensure the Superintendent's travel expenses was reviewed and reasonable

Background

Wellpinit School District No. 49, located on the Spokane Indian Reservation in Stevens County, serves approximately 400 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 spent a total of \$36,711 on travel for the Superintendent. District management is responsible for establishing internal controls to ensure travel disbursements are accurate, reasonable and allowable under state law.

District policy 6213 requires the District ensure that lodging, meals, airline fares, train fares and bus fares are reasonable rates. Also, District policy states that expenses for travel extending beyond the time required for the meeting or business are not reimbursable, unless in the District's financial interest or if it provides other rate advantages.

Our prior audit pointed out management noncompliance with District policy regarding reimbursement rates, including purchasing first class airfare instead of the tourist rate (coach) as required. Our audit recommended the District establish procedures to ensure travel (especially management travel) is in accordance with policy.

In response, the District changed its policy to reflect a more flexible travel threshold. Rather than requiring airfare at the tourist rate (coach), it now requires lodging and airfare to be at "reasonable rates" but does not define "reasonable." Additionally, the District removed its requirement for employees to follow IRS rules on travel, and instead now lists these rules as a management resource.

Description of Condition

Our audit found the Board did not provide adequate oversight or retain documented justification to ensure that the District only paid for travel that was reasonable and only for the time required for the meeting or business. While travel was verbally

communicated to the board, there was no formal secondary review of the Superintendent's travel packet, and the Superintendent approved his own travel forms.

In addition, the District does not have written documentation or justification in its policy to specify what travel expenses are considered reasonable; District policy should provide clear, prescriptive guidance and allow for preapproved exceptions.

We examined \$26,179 of the Superintendent's travel associated with six different trips, which included costs for hotels, parking, rental cars and airfare. We found the District paid for:

- Four days beyond what was needed to travel to conferences, which included hotels, parking and rental car expenses. The School Board did not formally approve these additional travel days.
- Four round-trip, first-class flights totaling \$8,423
- Valet parking totaling \$453 over three trips
- Six trips where the daily hotel per diem rate was exceeded by a total of \$5,798

These charges do not appear to be reasonable based on the available documentation and our review of travel expenditures at other School Districts. The school board has a responsibility to ensure public funds it expends are neither excessive nor unnecessary, and to safeguard against potential waste or abuse. Additionally, certain reimbursements may be considered taxable compensation under the federal tax code, in which case they may be subject to income tax and FICA withholding.

This issue was communicated to the District as a letter to management in a previous audit.

Cause of Condition

District officials said that extended stay beyond meetings and/or conferences will:

- Allow the superintendent to network with other school officials in different parts of the country
- Incur less expenses when two trips run back-to-back
- Allow the superintendent to be rested and prepared

The Board members are aware that some staff members fly first class and have not expressed concerns. According to the District Business Manager, the Board finds these travel expenditures to be reasonable for the Superintendent based on his years of service and allows the superintendent to have a meal and more space while traveling.

District officials said that valet parking is used when traveling to avoid walking in large cities that employees are unfamiliar with or that don't seem safe.

The District Business Manager said that the Superintendent met with the board several years ago about increasing how much he spends on airfare and travel. The Business Manager said the board agreed to spend more as long as the Business Manager reviewed and approved the increases. District official said that in combination with its policy changes, these travel charges were reasonable.

Effect of Condition

Without adequate controls, review and documentation to support reasonable travel, the District cannot ensure it is only paying for reasonable travel expenditures as envisioned by state law. Further, these deficiencies increase the District's risk of loss or waste of public resources.

Recommendation

We recommend the District:

- Update its travel policy to provide clear, prescriptive guidance to employees. The policy can provide a process to allow for preapproved exceptions, but should avoid using vague, ambiguous language.
- Establish formal, documented Board pre-approval for Superintendent travel exceptions.
- Establish procedures to ensure its travel expenditures are reasonable, reviewed by a second independent person, in compliance with District policies, and are only for the time required for the meeting or business, unless in the District's financial interest or other rate advantages.

District's Response

We appreciate the thoroughness of the audit process and acknowledge the importance of ensuring compliance with our financial policies and procedures. However, we believe that the District complied with its policies and procedures, that it is open and transparent regarding travel expenses, that the Board is aware

of and approves staff members' travel expenses, and that its staff members' travel expenses are reasonable. Thus, we disagree with the auditor's finding.

Nonetheless, the District has taken to heart the auditor's recommendations, and it plans to take the following actions:

- 1. **Enhanced Oversight:** We are implementing additional controls and oversight measures to prevent similar occurrences in the future. This includes establishing procedures to ensure its travel expenditures are reasonable, reviewed by a second independent person, in compliance with District policies, and are only for the time required for the meeting or business, unless in the District's financial interest or other rate advantages or with prior board approval.*
- 2. **Review and Adjustment:** We will review the specific charges identified in the audit and, where appropriate, make adjustments to ensure compliance with our policies.*
- 3. **Update Travel Policy and Procedure:** We will update our travel policy and procedure to provide clear, prescriptive guidance to employees. The policy will provide a process to allow for preapproved exceptions.*
- 4. **Approval Process:** The District will establish a formal, documented pre-approval process for superintendent travel exceptions.*

We appreciate the opportunity to further enhance transparency and accountability in our financial processes. To this end, we are open to the auditor's recommendations or suggestions for improving our documentation and reporting procedures.

Furthermore, we are committed to ongoing monitoring and review of our financial processes to proactively identify and address any potential areas of concern.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We reaffirm our finding and will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 42.24.090 Municipal corporations and political subdivisions –
Reimbursement claims by officers and employees

Accounting Manual for Public School Districts, Chapter 3, Internal Control
Structure

Accounting Manual for Public School Districts, Chapter 3, Employee Travel

Office of the Attorney General Memorandum – Eating and Drinking at Public
Expense



WELLPINIT SCHOOL DISTRICT

Spokane Indian Reservation

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Wellpinit School District No. 49 September 1, 2022 through August 31, 2023

This schedule presents the status of findings reported in prior audit periods.

Audit Period:	Report Ref. No.:	Finding Ref. No.:
9/1/21-8/31/22	1032992	2022-002
Finding Caption: The District lacked adequate controls for ensuring compliance with state procurement laws when making purchases and completing public works projects.		
Background: District management is responsible for designing, implementing and maintaining internal controls to ensure compliance with state laws and protect public resources. 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 purchasing goods and services. When procuring public works contracts and purchases exceeding certain dollar amounts, state law (RCW 28A.335.190) requires the District to formally solicit bids and award contracts to the lowest responsible bidder. State law (RCW 39.34.030) allows Districts to fulfill bidding requirements through a process referred to as "piggybacking," which is when one local government makes purchases from contracts awarded by another government or group of governments via an interlocal agreement or contract. To ensure compliance when procuring through piggybacking, the local government must ensure the awarding entity is a public agency, must maintain documentation to show the public		

awarding agency met its own statutory requirements, and must ensure the bid was posted on the public agency's website.

The District is also responsible for complying with prevailing wage and retainage laws when completing public works projects. State law (RCW 39.12.020) requires local government contractors and subcontractors to pay prevailing wages to all workers for all public works and maintenance contracts. To meet these requirements, the District must include a provision in the bid specifications and contract stating the hourly prevailing wage rates and the stipulation that contractors and subcontractors shall not pay laborers, workers, or mechanics less than the specified hourly wage rate.

Retainage laws (RCW 60.28.011) require the District to retain an amount not to exceed 5 percent of moneys the contractor earned for protection against potential claims or taxes. The District may not release these funds to the contractor until the contract is complete and the District files the Notice of Completion with Department of Revenue, Employment Security Department, and Department of Labor and Industries to ensure all potential claims against the project have been satisfied.

Status of Corrective Action: (check one)

☐ Fully Corrected ☒ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid

Corrective Action Taken:

The Wellpinit School District continues to review all procurement laws and takes note of the specific requirements for formally soliciting bids and awarding contracts to the lowest responsible bidder. The District also takes note of specific requirements to ensure the awarding entity is a public agency, maintains documentation to show the public awarding agency meets its own statutory requirements, and ensures the bids are posted on the public agency's website. The district relied upon experienced contractors during these federally funded projects to ensure proper contract language was used and to submit weekly certified payroll reports. Future federal projects exceeding \$2,000 in federal dollars will include federal language as required by Title 29 CFR, §5.5. The district will create a project tracking sheet which contains the following information: project location, project description, funding source, estimated contract amount, date of award, awarded contractor, SAM verification date, intent and affidavit numbers and dates, subcontractor information, and certified payroll verification for weeks' work completed. Also, to meet these requirements, the District will include a provision in the bid specifications and contracts stating the hourly prevailing wage rates and the stipulation that contractors and subcontractors shall not pay laborers, workers, or mechanics less than the specified hourly wage rate. Retainage laws (RCW 60.28.011) require the District to retain an amount not to exceed 5 percent of moneys the contractor earned for protection against potential claims or taxes. The District will not release these funds to the contractor until the contract is complete and the District files the Notice of Completion with Department of Revenue, Employment Security Department, and Department of Labor and Industries to ensure all potential claims against the project have been satisfied. Going forward, when using

any public awarding agency, the District will ensure that it has an up to date interlocal agreement, will ensure that no contract is awarded prior to it being open to use and the District will ensure it is receiving the same prices as the public awarding agency. The District will ensure that it has written contracts with contractors and ensure that the contracts include proper contract language ensuring all requirements of prevailing wages are met prior to the start of any work. Furthermore, the District will ensure that all bids that are approved by the board have all the correct information i.e, contractor name and contract amount. The minutes will be double checked for accuracy. The District will provide and maintain all documentation to support its reason for not selecting the lowest bid.

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

Wellpinit School District No. 49 is located on the Spokane Indian Reservation in Stevens County. The District provides educational services to approximately 385 students in kindergarten through 12th grade.

An elected, five-member Board of Directors governs the District. The Board appoints a Superintendent to oversee the District's daily operation as well as its approximately 83 employees. For fiscal year 2023, the District operated on a \$12.8 million annual budget.

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 Wellpinit School District No. 49 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.

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