



Office of the Washington State Auditor  
Pat McCarthy

## **Accountability Audit Report**

# **Easton School District No. 28**

**For the period September 1, 2019 through August 31, 2022**

*Published August 13, 2024*

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

August 13, 2024

Board of Directors  
Easton School District No. 28  
Easton, 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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## 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 did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the District did not provide adequate controls over safeguarding of public resources in most of the areas we examined.

As referenced above, we identified areas where the District could make improvements. These recommendations are included with our report a finding.

We also noted certain matters related to bidding for public works and open public meeting minutes that we communicated to District management and the Board of Directors in a letter dated August 13, 2024. We appreciate the District's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

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 Easton School District No. 28 from September 1, 2019 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, 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:

- Accounts payable – general disbursements, credit cards, scholarship funds
- Payroll – gross wages, supplemental contracts, leave balances and accruals, leave cash outs, retroactive payments
- Bank reconciliations – payroll clearing account, county treasurer to general ledger
- Procurement – public works
- 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

### Easton School District No. 28 September 1, 2019 through August 31, 2022

#### **2022-001    The District lacked sufficient oversight of its financial activities to ensure the safeguarding of public resources.**

##### ***Background***

The Board is responsible for fiscal oversight of the District. The Board and District management are also responsible for the integrity and retention of the original invoices, receipts and other documents necessary to demonstrate the validity of every transaction relating to the District's use and disposition of public resources.

##### ***Description of Condition***

The District lacked adequate oversight and internal controls to safeguard public resources, which increased the risk of misappropriation. Furthermore, District management did not develop and implement policies and procedures to verify that transactions were supported, approved and allowable.

We identified the following concerns during our audit:

##### **Insufficient Oversight of Operations**

The District must use Kittitas County as its treasurer, which includes processing payroll and accounts payable warrants. The County Treasurer issues a monthly statement summarizing the District's monthly receipt and payment activity. The District did not reconcile its general ledger to County Treasurer statements between the 2019–2020 and 2021–2022 school years, resulting in large discrepancies.

Additionally, the District did not reconcile the payroll clearing account to the payroll accounting module between the 2019–2020 and 2021–2022 school years, and did not reconcile all petty cash amounts, as required by the *Accounting Manual for School Districts in the State of Washington*.

The District's financial department did not pay the District's credit card bills timely. As a result, the District incurred significant interest and late fees on accounts, including \$3,774 in interest payments on two of six District credit cards.

### *Superintendent Contract*

The Superintendent was not contracted to work extra days or receive compensation for extra workdays until his 2019–2021 contract. The Superintendent requested to cash out vacation leave he accrued for the additional days worked in excess of those included in his base contract, from 2014 to July 1, 2019. Since this was not a benefit included in his contract, the Superintendent cashed out 800 hours of vacation leave in payments that were not allowable, totaling about \$60,329.

### *Supplemental Contracts*

The District paid a classified employee for supervisory duties that it did not include in their base contract. The employee did not sign a supplemental contract, yet the District paid them \$12,548 above their base pay from fiscal year 2019 through fiscal year 2022. As a result, the District paid the employee for additional work without established pay terms or employment expectations.

### *Retroactive Payments*

The District retroactively paid classified employees salary increases in fiscal years 2019 through 2022. State law (Washington State Constitution, Article II, Section 25) generally prohibits retroactive payments to employees for services they have already rendered. The retroactive payments were not subject to any collective bargaining agreement and therefore, these payments totaling \$8,578 violated state law and were not allowable.

### **Management Override of Controls**

Employees were able to request reimbursement for District-related expenses they incurred using personal funds. The District does not have a consistent and independent review process for employee reimbursements. We identified employee reimbursements that the Superintendent filled out, signed and approved without independent review or approval. Additionally, we identified reimbursements to other employees that the District paid without any indication of a review or approval.

### **Records Retention**

The District did not retain records during the audit period to support all banking transactions, vendor payments and employee contracts.

### *Cause of Condition*

The District did not have sufficient oversight, controls and policies over significant financial systems to ensure transactions were supported and for an allowable purpose.

### *Effect of Condition*

Due to the District's lack of adequate controls, appropriate policies and documentation, we cannot determine if:

- All District payments during the audit period were legal and allowable
- The District deposited all funds it collected, paid employees in accordance with their contracts or appropriately paid money it owed to vendors
- The District appropriately paid all employees in accordance with their approved salary and/or contract
- Any potential loss or misappropriation of public funds occurred

In February 2023, we investigated a possible misappropriation of public funds as referenced in the Related Reports – Special Investigations section of this report.

### *Recommendation*

We strongly recommend the Board implement appropriate oversight and ensure adequate controls over all financial activities to ensure the safeguarding of public resources. Additionally, the District should retain proper documentation to support all its financial activities as state law requires.

Based on the results of our audit we specifically recommend the District:

- Establish a review process over significant financial systems to ensure that it reconciles activity in the general ledger and payroll subsidiary systems timely, and that they are accurate and agree to the County Treasurer activity
- Properly train staff to process payroll
- Implement procedures to ensure leave accruals and cash-outs comply with applicable employment contracts
- Prepare supplemental contracts to support additional duties, responsibilities or time, and the employees' authorized pay
- Implement practices and procedures to ensure a thorough review of manual payroll calculations, including agreeing to employee contracts or other



criteria to demonstrate they are appropriate under state law and District policies

- Independently review disbursements such as employee reimbursements and credit card activity, including those for the Superintendent, to verify that all transactions are for an allowable business purpose
- Conduct a legal review to determine if any further actions, such as repayment, are advisable or required by law for the overpayments we noted

### ***District's Response***

*Easton School District concurs with the auditors' recommendations. The district has taken immediate action by examining current practices and policies regarding payroll and general ledger. Since July 2022, Easton School District has been strengthening internal controls and developing updated procedures and policies. Easton School District is committed to providing the necessary training to its employees to ensure compliance with state laws and regulations. Trust in our community is of the utmost importance to the District and its Board of Directors.*

*The Superintendent, Business Manager, and Accounts Payable staff member involved in this Accountability Report are no longer employed by Easton School District, and their employment ended no later than June 2022. A new team has been hired.*

*Since June of 2022, Easton School District fiscal services and oversight have been provided by contracted services with NCESD. In addition, for the last two years, our current Payroll/AP staff member has been enrolled in NCESD's yearlong Payroll Academy to ensure the accurate processing of the District's payroll records.*

*With the hiring of a new Superintendent in July 2022, the District has implemented steps to enhance its procedures and increase fiscal, payroll, and Board activity transparency, including:*

- *Annual School Board meeting agenda calendar including monthly fiscal, Accounts Payable, Human Resources, and operational updates.*
- *Monthly Board meetings to include monthly Payroll Updates(in progress)*
- *Implementation of an electronic Board Meeting program for public review and participation (Board Docs)*
- *All supplemental staff contracts for extra duties are reviewed and approved by the Easton School Board*

- *Multiple staff members review any (and all) purchases using district credit cards to ensure allowable expenses are met.*
- *Superintendent's Work calendar is shared with the Board in July and then reviewed in June*
- *Board materials from 1975 to the present have been digitized and available electronically*
- *District applied for and received a Records Retention Grant from the Secretary of State's Office*

### ***Auditor's Remarks***

We appreciate the District's commitment to resolving this finding and thank the District for its cooperation and assistance during the audit. We 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.

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

RCW 28A.150.230 – District school directors' responsibilities.

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

RCW 42.56.100 — Protection of public records — Public access

RCW 40.14.070 — Destruction, disposition, donation of local government records — Preservation for historical interest — Local records committee, duties — Record retention schedules — Sealed records — Peace and corrections officer personnel records.

*Accounting Manual for Public School Districts in Washington State*

## RELATED REPORTS

### **Special investigations**

We issued a report on a misappropriation of public funds at the District. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE DISTRICT

Easton School District No. 28 provides educational services to about 96 students in Kittitas County. The District provides various educational services to students in kindergarten through twelfth grade in one high school, middle school and elementary school.

An elected, five-member Board of Directors administers the District. The Board appoints a Superintendent to oversee the District's daily operations. For the 2019-2020, 2020-2021 and 2021-2022 fiscal years, the District operated on an annual budget of about \$3.1, \$3.1 and \$2.9 million, respectively.

### Contact information related to this report

|            |  |
|------------|--|
| Address:   | Easton School District No. 28<br>P.O. Box 8<br>Easton, WA 98925  |
| Contact:   | Trisha Schock, Business Manager                                  |
| Telephone: | (509) 656-2317   |
| Website:   | <a href="http://www.easton.wednet.edu">www.easton.wednet.edu</a> |

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Easton School District No. 28 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](http://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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