



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Toppenish School District No. 202

For the period September 1, 2021 through August 31, 2023

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

September 12, 2024

Board of Directors
Toppenish School District No. 202
Toppenish, 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..... 6

Summary Schedule of Prior Audit Findings 10

Related Reports 14

Information about the District..... 15

About the State Auditor's Office..... 16

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 Toppenish School District No. 202 from September 1, 2021 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 years ended August 31, 2023 and 2022, 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
- Payroll – gross wages and leave cash outs
- Self-insurance for unemployment
- Accounts payable – general disbursements, credit cards, travel expenditures, and employee reimbursements

- Contract compliance – nonprofit organizations
- Cash receipting – timeliness and completeness of deposits at District Office
- Student enrollment reporting – Alternative Learning Experience
- 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, 2021 through August 31, 2023

2023-001 The District did not have adequate controls to monitor agreements with nonprofit organizations and ensure safeguarding of public resources.

Background

District management is responsible for designing and following internal controls that ensure compliance with state laws and policies, and the safeguarding of public resources. Inadequate internal controls can hinder the District's ability to prevent or detect misappropriation and comply with laws and policies.

The District conducts business with nonprofit organizations 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. During the audit period, one of the organization's 2010 Articles of Incorporation listed members of District management as governors, and they were responsible for preparing the organization's annual report. These employees ended their relationship with the organization in fiscal year 2023.

The law requires educators to complete continuing education credits throughout their career to maintain their certification. These credits are offered through "clock hours," which are units of credit assigned to educators at a professional development or training event. All Washington public school districts are approved clock hour providers. The District began billing and receipting for clock hours in June 2020 for professional development it provided to educators.

Description of Condition

Although the District has a policy over school support organizations, the policy does not establish clear guidelines for working with these organizations. Without such guidance, the District runs the risk of comingling responsibilities between District personnel and school-support organization activities. Further, the policy requires the booster and special interest organizations to receive the principal or superintendent's approval to conduct activities within the District. In 2022, two nonprofits signed agreements with the District, but the agreements did not have evidence of superintendent or principal approval.

Additionally, the District's internal controls over cash receipting for clock hours were insufficient to detect or prevent a diversion of public funds to a nonprofit organization in fiscal years 2020, 2021 and 2022.

Cause of Condition

District staff thought the current policy was sufficient for working with nonprofit organizations. After the prior audit, District management implemented an agreement form to use when doing business with nonprofit organizations. However, the form only required a signature from the nonprofit organization, and the District did not have other procedures for obtaining written approval from the superintendent or principal.

Further, District staff said that when they began billing for clock hours in 2020, there was confusion over the billing and receipting process. Initially, District staff did not consider the clock hour receipts as public funding and thought the clock hours could be considered fundraising activity for the nonprofit since the District was not required to charge for clock hours.

Effect of Condition

Without a policy establishing clear guidelines for working with nonprofit organizations, the District runs the risk of comingling responsibilities between District personnel and school support organization activities.

Further, inadequate controls over the District's cash receipting activities and lack of proper oversight increase the risk that a loss or misappropriation of public funds could occur and District management would not detect it quickly, if at all. Specifically, the District deposited public funds totaling \$42,431 into a nonprofit bank account between June 2020 and September 2021. The nonprofit returned \$16,486 of the diverted public funds to the District in October 2021; however, the District did not recover or account for the remaining \$25,943.

In fiscal year 2022, the District identified the diversion of public funds and changed its procedures to appropriately receipt all clock hour revenues and deposit public funds in the District account.

Recommendation

We recommend the District:

- Update its policies and procedures governing school support organizations to clearly define guidelines
- Document superintendent or principal approval when organizations conduct activities within the school or District
- Implement adequate controls over cash receipting to ensure it deposits all funds into the District's account
- Work with legal counsel to determine its obligation to recover any remaining public funds that it deposited into the nonprofit's account

District's Response

Toppenish School District concurs with the auditors' recommendations. The District is currently using the Washington State School Directors' Association model policy 4120 and model procedure 4120P (working with School Support Organizations) and has adopted the best-practice booster club agreement from the Washington State Booster Club Association; we commit to updating these policies, procedures, and agreements to include auditors' recommendations.

As stated previously in the Effect of Condition section, "In Fiscal Year 2022, the District identified the diversion of public funds and changed its procedures to appropriately receipt all clock hour revenues and deposit public funds in the District account." Toppenish School District is committed to providing necessary training to its employees to ensure continued compliance with state laws and regulations and will continue to implement adequate controls over cash receipting.

Toppenish School District will work with legal counsel to determine our obligation to recover any remaining public funds deposited into the nonprofit's account.

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

Attorney General Opinion 1993 No. 18 – Relationships between universities and nonprofit organizations that engage in fundraising activities for them.

Accounting Manual for Public School Districts in the State of Washington – Chapter 3, Accounting Guidelines, Internal Control Structure, sets forth requirements for establishing and maintaining an effective system of internal controls.

WAC 391-138-014 – Accounting procedures and records, set forth requirements for accounting methods and procedures to follow regulations and guidance established in the *Accounting Manual for Public School Districts in the State of Washington*.

WAC 392-123-010 – The Accounting Manual, sets forth the requirements for the use of the accounting manual by the District.

RCW 28A.400.030 – Superintendent’s duties, sets forth requirements for the school district superintendent to keep accurate records and detailed accounts for receipts and expenditures of school money.

RCW 39.58.080 – Deposit of public funds in public depository required – Deposits in institutions located outside of the state



Toppenish School District No. 202

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Toppenish School District No. 202 September 1, 2021 through August 31, 2023

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

Audit Period: September 1, 2019 through August 31, 2021	Report Ref. No.: 1031331	Finding Ref. No.: 2021-001
Finding Caption: 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. The District lacked oversight to ensure its policies and procedures over disbursements and credit card activity were adequate for safeguarding public funds.		
Status of Corrective Action: (check one) <div><input checked="checked" type="checkbox"/> Fully Corrected</div> <div><input type="checkbox"/> Partially Corrected</div> <div><input type="checkbox"/> Not Corrected</div> <div><input type="checkbox"/> Finding is considered no longer valid</div>		
Corrective Action Taken: <i>Revised credit card procedures to include pre-approvals through the PO process and revised mandatory documentation lists to support all transactions; Ensured that the district setup internal controls to prevent paying for expenses on behalf of other organizations and ensure that it only pays for extracurricular activities through the ASB fund or local revenue subfund. Also revised travel procedures to ensure per diem was accurately applied, including for students.</i>		

Audit Period: September 1, 2019 through August 31, 2021	Report Ref. No.: 1031331	Finding Ref. No.: 2021-002
Finding Caption: <p>The Board lacked oversight to ensure the Superintendent's pay and benefits were in accordance with an approved written contract.</p>		
Background: <p>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.</p> <p>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.</p>		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;"><input checked="" type="checkbox"/> Fully Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Partially Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Not Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Finding is considered no longer valid</div> </div>		
Corrective Action Taken: <p><i>The board established a contract amendment process that includes approving contract extensions in writing to be included with the original agreement. The board regularly reviews payroll data to ensure the Superintendent contract is being executed in accordance with contract terms.</i></p>		

Audit Period: September 1, 2019 through August 31, 2021	Report Ref. No.: 1031331	Finding Ref. No.: 2021-003
Finding Caption: <p>The District paid the former Vice Principal without a valid contract for wrestling coach duties that he did not perform.</p>		
Background: <p>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.</p> <p>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.</p>		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input checked="" type="checkbox"/> Fully Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Partially Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Not Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Finding is considered no longer valid</div> </div>		
Corrective Action Taken: <p><i>Human resources revised its supplemental contract issuing process ensuring more comprehensive descriptions on job duties, reviewing for follow-up employee signatures after contracts had been mailed, and continues to run all supplemental contracts through board approval.</i></p>		

Audit Period: September 1, 2019 through August 31, 2021	Report Ref. No.: 1031331	Finding Ref. No.: 2021-004
Finding Caption: <p>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.</p>		
Background: <p>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.</p> <p>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.</p> <p>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.</p>		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input checked="" type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <p><i>No school district employees are governors of the non-profit organization identified in this finding as of 2023. Non-profit and booster club organizations that interface with Toppenish School District staff and students are now required to sign an External Support Group Agreement form adopted from the Washington State Booster Club Association. This form establishes terms and procedures when conducting business with Toppenish School District. Internal controls are now in place to prevent paying for expenses on behalf of outside organizations.</i></p>		

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

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 year 2023, the District operated on annual revenues of approximately \$88.5 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 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.

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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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