

Washington State Auditor's Office
Accountability Audit Report

Oakville School District No. 400
Grays Harbor County

Report Date
April 16, 2007

Report No. 72809

Issue Date
June 15, 2007



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

June 15, 2007

Board of Directors
Oakville School District No. 400
Oakville, Washington

Report on Accountability for Public Resources

Please find attached our report on Oakville School District No. 400's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

In addition to this work, we also audit the District's financial statements and compliance with federal laws and regulations. The results of that audit will be included in a separately issued audit report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Grays Harbor County
April 16, 2007

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Audit Summary

Oakville School District No. 400 Grays Harbor County April 16, 2007

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Oakville School District No. 400.

We performed audit procedures to determine whether the District complied with state laws and regulations and its own policies and procedures. We also examined District management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from September 1, 2005, through August 31, 2006. Matters that were identified during our review of these transactions and reported as findings in this report have been examined through the report date.

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures in the areas we examined. We noted certain issues that we communicated to management. We also identified one condition significant enough to report as a finding.

- Oakville School District No. 400 did not have adequate internal controls over its Associated Student Body activities.

RELATED REPORTS

Our opinion on the District's financial statements and compliance with federal program requirements is provided in a separate report, which includes the District's financial statements. That report includes a federal finding regarding the District's internal controls and compliance over suspension and debarment for its Special Education grant and a finding regarding the deterioration of the District's financial condition.

CLOSING REMARKS

We thank District officials and personnel for their assistance and cooperation during the audit.

Description of the District

Oakville School District No. 400 Grays Harbor County April 16, 2007

ABOUT THE DISTRICT

Oakville School District No. 400 provides educational services to approximately 300 students in kindergarten through 12th grade. A five-member Board of Directors, elected to four-year terms, governs the District's operations. The Board appoints a Superintendent who is responsible for day-to-day operations. It has one high school, one middle school and one elementary school. The District operates on a \$3.1 million annual general fund budget and approximately 32 employees provide students with basic education and support services.

AUDIT HISTORY

Typically, we audit the District every three years. However, because the District spent more than \$500,000 in federal funds in 2006, it is required to have an annual audit. The past five audits of the District reported two areas of concern. During the 2005 audit, we noted significant weaknesses in controls and procedures over District's purchases and payments. We also reported a federal finding due to weaknesses in the District's reporting of federal financial transactions. The District has taken steps to improve these conditions and we consider them to be partially resolved. The current audit includes three findings regarding the District's controls over Associated Student Body activities, a lack of controls and noncompliance with suspension and debarment requirements related to the District's Special Education grant and a deterioration of the District's financial condition.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Directors:

Tammy Ruymann
Stephanie Pickernell
Steve Mittge
Don Secena
Judith Palmer

APPOINTED OFFICIALS

Superintendent

Brian Metke

ADDRESS

District

103 School Street
Box H
Oakville, WA 98568

Audit Areas Examined

Oakville School District No. 400 Grays Harbor County April 16, 2007

In keeping with general auditing practices, we do not examine every portion of Oakville School District No. 400's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the District were examined during this audit period:

ACCOUNTABILITY FOR PUBLIC RESOURCES

We evaluated the District's accountability in the following areas:

- Apportionment – enrollment, transportation and teacher education and experience (staff mix)
- Associated Student Body activities
- Cash disbursements
- Payroll

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Inter-fund transactions
- Budget compliance

FEDERAL PROGRAMS

We evaluated internal controls and tested compliance with federal program requirements, as applicable, for the District's major federal programs, which are listed in the Federal Summary section of the financial statement and single audit report.

FINANCIAL AREAS

Our opinion on the District's financial statements is provided in a separate report. That report includes the District's financial statements and other required financial information. We examined the financial activity and balances of the District including:

- Cash and investments
- Revenues
- Expenditures
- Internal activity
- Overall presentation of the financial statements
- Financial condition

Schedule of Audit Findings

Oakville School District No. 400 Grays Harbor County September 1, 2005 through August 31, 2006

1. **Oakville School District No. 400 did not have adequate internal controls over its Associated Student Body (ASB) activities.**

Description of Condition

Disbursements:

The District reported ASB expenditures were \$50,275.09 for the fiscal year ended August 31, 2006. In our review of ASB expenditures we found:

- Supporting documentation for expenditures was not adequately maintained. No original documentation was retained and no indication of approval for payment was documented. Payments lacked ASB purchase orders as well as student and administrative approval.
- Payments were not being made in timely manner. We identified multiple payments were made several months after invoice date. Payments made in July were for invoices received as early as January.
- Payments were not charged to appropriate accounts resulting in inaccurate accounting records.

Additionally we found the District was not adequately monitoring payments. As a result of these issues, we expanded our scope to include transactions during the 2006-07 school year and found the identified conditions continued.

Cash receipts

Cash receipts were inadequately safeguarded. The District could not account for cash proceeds totaling \$586 from three sporting events. Also, proceeds were not being recorded accurately or in a timely manner and deposits were not made in a timely manner.

ASB accounts:

Student club financial records have not been updated for several months, resulting in negative fund balances. The District could not provide accounting records for the ASB accounts and could not reconcile the difference between reported cash balance and money in the bank. The ASB advisors were not provided detail reports of ASB financial activities and one advisor was told these reports were not available.

Cause of Condition

The District lacks effective oversight of ASB operations.

Effect of Condition

The lack of oversight increases the risk that errors or irregularities could occur and not be detected in a timely manner, if at all.

Recommendation

We recommend the District:

- Follow the Washington Association of School Business Officials' ASB manuals to ensure compliance with the District policies.
- Establish and follow accounting procedures to ensure all payments are properly approved, adequately documented, paid in a timely manner and recorded to appropriate ASB accounts.
- Establish and follow internal controls to ensure all cash receipts are promptly receipted, reconciled and deposited intact and accurately recorded.

District's Response

Disbursements, Cash Receipts and ASB Accounts:

At time of the audit, the district was already working towards cleaning up the procedures and processes. Three district staff members attended ASB training in the Spring of 2007. As a result of this training, each process and procedure is being reviewed and updated. In the fall of 2006 the purchasing procedures were addressed and updated. Changes included encumbering all purchase orders, putting in place a purchase order request and final signature procedures to ensure that the ASB student officers are approving all purchases in advance. Procedures are still being created for providing clubs and students regular account balances and reports.

December 2006, the ASB cash handling and receipting procedures were changed to create segregation of duties, allow of daily depositing, cash balancing, gate box procedures and double checks and balances.

In response to the unaccounted for \$586 – although these funds were “unaccounted” for at the time of the audit and a letter of investigation was written to the Grays Harbor Sheriff's Office (and was officially investigated), over \$300 has been accounted for in gate box and deposit paperwork and \$150 was not counted that was stored in the school safe, these items were found as a result of an internal investigation and research. At this time the district has not received an official response from the Grays Harbor Sheriff's Office.

Auditor's Remarks

We appreciate the District's cooperation and assistance during the course of the audit. We will review the status of the issue during the District's next scheduled audit.

Applicable Laws and Regulations

RCW 28A.325.030 states in part:

All disbursements from the associated student body program fund or any imprest bank account established thereunder shall have the prior approval of the appropriate governing body representing the associated student body.

RCW 43.09.200 states in part:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all

reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Article XI, Section 15 of the Washington State Constitution, Deposit of Public Funds states in part:

All moneys ...collected for the use of any . . . municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours.

WAC 392-138-014 states in part:

(1) Accounting methods and procedures shall comply with such rules and regulations and/or guidelines as are developed by the state auditor and the superintendent of public instruction and published in the *Accounting Manual for Public Schools in the State of Washington* and/or other publications;

The School Accounting Manual, Chapter III, Section G-1, Page 3, states in part:

Documentation: Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be purposeful and useful to district management in controlling and/or managing operations...

Recording of Transactions and Events: Transactions and other significant events are to be promptly recorded and properly classified. Prompt recording ensures that pertinent information maintains its relevance and value to management in controlling operations and making decisions. . . .

WAC 392-138-125 states in part:

- (1) No disbursements shall be made except as provided for in the budget approved pursuant to WAC 392-138-040;
- (2) Disbursements shall occur only upon presentation of properly prepared vouchers in such format and design as the central district office shall prescribe;
- (3) All disbursements from the associated student body program fund or any imprest bank account established thereunder shall have the prior approval of the appropriate governing body representing the associated student body. Supporting documentation of the vouchers shall bear evidence of approval by the associated student body governing body in accordance with associated student body bylaws;
- (4) When an account within the fund balance of an associated student body organization does not contain a sufficient balance to meet a proposed disbursement, such disbursement shall be limited to the fund balance: Provided, That a transfer of fund balance between associated student body organizations may be made pursuant to the associated student body bylaws and as approved by the associated student body governing body.

Status of Prior Audit Findings

Oakville School District No. 400 Grays Harbor County April 16, 2007

The status of findings contained in the prior years' audit reports of Oakville School District No. 400 is provided below:

1. **Oakville School District No. 400 did not adequately monitor financial operations to ensure compliance with state regulations.**

Report No. 25772, dated September 1, 2006

Background

Our audit identified multiple weaknesses in the monitoring of financial operations resulting in an inappropriate inter-fund transfer, unsupported payroll and general disbursements, as well as exceeding the budgeted appropriations.

Status

The District has partially corrected the conditions. We noted improvements related to the reported conditions, but the District is continuing to streamline its operations in order to fully implement the recommendations made in our report. The District has created a new position in the business office designed to create an additional level of monitoring and separation of duties and the new Finance Manager is attending training provided by the Educations Service District. We will review the District's progress during our next audit.