

# Board Special Meeting

## Quarterly Audit Meeting

Tuesday, June 13, 2017, 4:30-6:30pm

Board Office Conference Room, John Stanford Center

2445 – 3<sup>rd</sup> Avenue South, Seattle WA 98134



### Agenda

#### Call to Order

5 mins

1. Roll Call
2. Approval of agenda
3. Approval of meeting minutes

#### Board Action Reports (Discussion and/or Action)

10 mins

1. BAR: Resolution 2016/17-27, Fixing and Adopting the Budget (Berge)

#### Internal Audit Update

45 mins

1. Internal Audit Update
  - Horace Mann Construction Follow-up Audit (Fry)
  - Genesee Hill Design Follow-up Audit (Fry)
  - West Seattle High School Audit (Medina)
  - ORCA K-8 Audit (Medina)
  - Disbursements Audit (Medina)
  - Employee Leave Time Audit (Medina)

#### Audit Response Update

30 mins

1. Audit Response Management (Boulmetis)
2. Instructional Leadership (Tolley, Aramaki)
3. Human Resources (Codd)
4. Budget & Finance (Berge)

#### Upcoming Meetings

- September 5, 2017 Quarterly Audit Meeting
- December 5, 2017 Quarterly Audit Meeting

*(Please note that this is a working committee. Documents may change before the meeting and/or prior to introduction before the Board. Special meetings of the Board may contain discussion and/or action related to the items listed on the agenda).*

# Board Special Meeting

John Stanford Center – Board Office Conference Room

2445 3<sup>rd</sup> Avenue South, Seattle, WA 98124



## Quarterly Audit Meeting Minutes Tuesday, December 13, 2016 4:30 – 6:30 pm

### Call to Order

Director Peters called the meeting to order at 4:30 pm.

School Board members present were Directors Peters, Blanford and Patu. Director Harris arrived at 4:32.

Staff member present was Assistant Superintendent of Business & Finance JoLynn Berge.

### Approval of Agenda

Assistant Superintendent of Business & Finance JoLynn Berge requested to change the agenda order to move up Business & Finance update on Audit Response Updates to first.

Director Blanford moved to approve the amended agenda Director Peters seconded. The agenda was unanimously approved.

Director Blanford moved to approve the September 13, 2016 meeting minutes. Director Patu seconded. The minutes were unanimously approved.

### Audit Response Updates

Business & Finance (Berge/ Murphy/ Navarro/ Fleming)

Audit Response Manager Annette Boulmetis spoke about the completion of the Alternative Learning Experience (ALE) audit. The resolution was satisfactory; the liability was reduced from over \$400k to approximately \$8.5k. Assistant Superintendent of Business & Finance JoLynn Berge confirmed the Directors had been informed about the completion at the September 3<sup>rd</sup> Budget Meeting. Ms. Boulmetis spoke about completing the financial audit of the Nathan Hale radio station, which will qualify KNHC to receive \$100,000 in additional funding.

Director Blanford asked if that was a grant that is contingent on completion of an audit. Ms. Boulmetis confirmed that was correct.

Director Peters asked if requiring an audit was typical. Ms. Berge confirmed it was for Federal Communications Commission (FCC) grants.

Ms. Berge confirmed Business & Finance is on track with the twelve items currently being tracked. Ms. Berge spoke about asking for an extension for item number 12, which is the change to the Superintendent, procedure to update the language on when purchases need to be aggregated. Ms. Berge spoke about the integration of vendor pay and payroll databases. Currently it is in beta testing, and additional testing may be needed.

Director Blanford asked why did this rise to a level of an audit. Director Internal Audit & Ethics Officer Andrew Medina spoke about the issue being around segregation of duties. Ms. Berge confirmed that from now on the employee information would migrate directly from a payroll database to Accounts Payable database for processing.

Director Peters asked if the change to the Superintendent procedure meant the current procedure will dictate how the process works. Ms. Berge confirmed it will and currently Procurement department is monitoring and will question any purchases that may need to be

aggregated. She explained that SP6220 requires clarification to close a loophole meant for construction contracts, which is not being used properly.

Director Peters asked if everyone involved in the process is aware they need to look out for certain things. Ms. Berge confirmed Purchasing, Accounting and Contract departments know and anyone else that has bigger purchases are aware of this change.

Director Peters asked if this change was due to the Dell computer purchases. Ms. Berge spoke about how this issue was in process prior to the Dell computer purchases.

Ms. Berge spoke about the inventory tracking system, which is how fixed assets are monitored.

A Request for Proposal (RFP) for an asset tracking management system is in process. Ms.

Berge also confirmed the Point of Sale system RFP under the leadership of Accounting Services and Department of Technology Systems (DoTS) is progressing. Ms. Berge explained all additional items have been closed and met the requirements.

Director Peters asked who decides what positions will be funded by what budget. Ms. Berge explained the Budget department works with the individual department to decide where funding should appropriately come from.

### **Internal Audit Updates**

#### 1. Internal Audit Update (Medina)

- Change to Internal Audit Annual Plan

Director of Internal Audit & Ethics Officer Andrew Medina spoke about a request to amend the Internal Audit Plan to add an audit related to employee leave time. Mr. Medina explained the Subfinder system does not talk to the Employee Self Service system so when an employee requested a sub through Subfinder, they were also supposed to record their leave in Employee Self Service. The main concern is that the leave time is not being recorded. Mr. Medina also discussed that the audit will include an evaluation of unrecorded leave time for central administration staff and principals.

Director Harris asked is there room for improvement to have more transparent reporting. Mr. Medina explained the timeline for the audit request and that he first informed the Chair of Audit & Finance in October and that the request followed the internal audit Board Procedure. The Chair concurred that this would be a good use of internal audit resources.

Director Blanford asked about the methodology of how schools are reporting this data. Mr. Medina explained the methodology and explained a few challenges in completing the analysis. Director Harris requested an interim report be given prior to the next quarterly meeting. Mr. Medina explained he can provide that once more information/ data has been gathered because the audit is still in process and the data is still being verified.

Director Patu asked what we are doing to avoid this from happening while the information is being gathered. Mr. Medina explained an email has been sent out to district staff reminding them of their responsibilities to record their leave time correctly. The Directors approved the change to Annual Internal Audit Plan.

- Rainier Beach High School Audit Report

Mr. Medina spoke about the six findings. Mr. Medina explained school audits are part of the internal audit annual plan, but Rainier Beach High School was selected for an audit because there were several complaints regarding untimely payments to vendors.

Director Peters asked how often is the fiscal specialist available or not available. Mr. Medina explained he was unable to determine that.

Director Harris asked if this would require updating manuals or notifying principals. Mr. Medina spoke about how that would not be necessary and procedures are already documented.

Director Harris asked if the procedures are not being followed what happens. Mr. Medina explained if the procedures are not being followed, it would be put in his report as a recommendation.

Mr. Medina spoke about how the issue related to untimely vendor payments was mainly attributable to unauthorized purchases. Mr. Medina summarized the recommendations for vendor payments.

Director Harris asked about staff and vendor communication. Mr. Medina explained the report includes recommendations regarding communication with staff and vendors.

Director Blanford asked what type of vendors would this be referring to. Mr. Medina provided some examples.

Mr. Medina summarized the remaining findings, which involved cash handling and receipting, payroll, volunteer screening, field trips, and the use of school facilities.

Director Harris asked who approves field trips. Mr. Medina explained the Executive Director of Schools approves overnight trips, and that Risk Management only approves international trips.

Mr. Medina indicated that an administrative procedure is in place for field trips.

Mr. Medina spoke about a finding related to the use of school facilities. Outside groups were allowed to use the school's facilities in exchange for a donation, rather than following the District's proper building rental procedures. Mr. Medina indicated that additional analysis would be necessary to determine if all donations received in exchange for using the school's facilities were actually deposited with the school's fiscal office.

- Human Resources Follow-up Audit Report

Mr. Medina spoke about how this is a follow-up to our original report that was issued on September 11, 2012. Mr. Medina explained the initial report contained 11 recommendations and that improvements have been made to correct 10 of the 11 recommendations. He noted that too many people still have access to the transactions that can impact employee pay and employee personal data.

Director Peters asked what it takes to fix that. Ms. Codd explained the system process in SAP, and indicated that they have a plan to correct this.

### **Audit Response Updates**

#### 1. Audit Response Management (Boulmetis/Berge)

Audit Response Manager Annette Boulmetis explained these were already included in the discussion with Ms. Berge in Audit Response Update Business and Finance.

#### 2. Curriculum and Instruction (Tolley/ Clancy/ Stone)

Professional Development Instructional Services Manager Laura VanDerPloeg explained the development of an automated method to track and record clock hours. Ms. VanDerPloeg explained the pilot program that had been done and explained the current plan of doing a cost benefit review. Ms. Codd explained additional concerns for the corrective action plan.

Director Blanford asked if we are out of compliance for clock hours and implications with our budget. Ms. VanDerPloeg explained additional shortfalls of possible errors that will occur if this system is not introduced properly.

Director Harris asked if this problem is unique to Seattle School or can we ask other districts for guidance. Ms. Codd explained we charge for clock hours, and we use the funds to staff someone. Other districts do not charge.

Director Peters asked Ms. Boulmetis make edits in the comments section to have more information on the focus of the corrective action plan to be updated for the next meeting. Ms. Boulmetis agree to update this section.

Director of Special Education Michaela Clancy spoke about the CEDARS and P223h reports directly from data in the Individualized Education Program (IEP) online system, rather than reenter the data into the PowerSchool system. She explained the implementation will begin after Office of the Superintendent of Public Instruction (OSPI) submission will occur in January.

Director Peters asked if both systems will be working together. Ms. Clancy explained it will be the two systems. She have been working closely with DoTS to insure a smooth process.

Directors asked Ms. Clancy to bring this item back in March for an update.

Grants Director Michael Stone spoke about recommendations to review ranking order of Title I buildings to ensure enrollment and Free and Reduced Lunch (FRL) data is accurate and adequately supported. Protocol has been developed within the Grants team and working with DoTS. Mr. Stone explained the process to have the data pulled.

Director Harris asked if these numbers are we based the Weighted Staffing Standard (WSS). Ms. Sebring confirmed they are and she explained the data analytics that are done prior to the information going out to the school.

3. Business & Finance (Berge/ Murphy/ Navarro/ Fleming)

Discussed with Ms. Berge in Audit Response Update Business and Finance.

4. Human Resources (Codd)

Assistant Superintendent of Human Resources spoke about the recommendation of the District create a written Policy 6501 or procedure to protect employees' private information including restrictions on access and storage of sensitive information. Ms. Codd explained policy 6501 will come to the board in January 2017.

5. Capital Projects (Herndon/ Best)

Associate Superintendent Capital Facilities Enrollment spoke about a template for liquidated damages estimates and maintain documentation that supports the amount and explains the basis for the calculation. It was recommend the District provide written notice that reserves the right to impose liquidated damages when it first appears substantial completion. Mr. Herndon explained this will be completed on the 20<sup>th</sup>.

Director Harris asked if this can be given to Legal Department. Mr. Herndon explained the knowledge of construction needs to be there, and direction would need to be given to the paralegal to have it completed. This will be on the March report as closed out.

**Meeting adjured at 6:30pm**

# Board Special Meeting

2445 – 3<sup>rd</sup> Avenue South, Seattle WA 98134



## Quarterly Audit Committee

March 14, 2017, 4:30-6:30

Board Office Conference Room, John Stanford Center

### Minutes

#### Call to Order

1. This meeting was called to order at 4:44pm. Director Harris and Director Burke were present. This meeting was staffed by Assistant Superintendent of Business & Finance JoLynn Berge.
2. **Approval of agenda**  
Director Burke moved to approve the agenda. Director Harris seconded. This motion passed unanimously.
3. **Approval of meeting minutes**  
Director Harris asked for edits to the December 13, 2016. They will be edited and brought back to the June 2017 meeting. The December 13, 2016 minutes were not approved.

#### Internal Audit Items

##### 1. Internal Audit: Rainier Beach (Medina)

Internal Audit Director Andrew Medina provided an update on the internal audits currently in progress. He highlighted the employee leave time audit, which was approved by the Committee as a change to the annual audit plan in December. Mr. Medina explained the focus of the audits was on unrecorded leave time and that the audit involved both school-based employees and non-represented central administration employees. Mr. Medina spoke about some of audit procedures performed.

Director Harris asked how many schools were reviewed. Mr. Medina explained six schools were included. Director Burke asked if the employees selected for testing were based on high or low variance. Mr. Medina explained it was a risk-based selection.

Director Harris asked if the foundational documents related to internal audit require a change to address management requests. Mr. Medina replied no. Even though they are responding to a request from management, this engagement is still being conducted as an independent and objective audit and all procedures and findings will be determined by internal audit.

Director Harris asked for data on cash outs and how many employees were involved. Mr. Medina provided some figures and explained that the data is still preliminary and that the final figures will be included in the audit report.

Mr. Medina also spoke about the school audits that would be performed this year, and highlighted that the focus of the school audits will be on cash handling and receipting procedures, as well as overnight field trip procedures. This year's school audit program is a condensed version of prior years' in order to focus on areas with frequent errors and to free up internal audit resources for other audits. The three school audits in progress are West Seattle High School (HS), Chief Sealth HS, and ORCA K-8. The cash counts have been completed and the remaining fieldwork procedures will be completed over the next few weeks.

Mr. Medina spoke about the audit report being presenting today as an extension of the Rainier Beach High School audit report that was issued at the December quarterly meeting. The report from December

identified concerns related to outside groups using the school's facilities in exchange for a donation to the school, rather than following proper procedures through the District's building rentals department. Mr. Medina conducted additional audit procedures to determine if all donations received by the school were actually deposited with the school's fiscal office. The results of his audit did not identify any funds collected by the school that were not deposited in to the school's ASB fund. He reaffirmed the initial findings and recommendations noted in the December audit report, but stated that there was no need for management to provide an additional response to this audit.

Director Harris asked if Rainier Beach was the school that non-District employees came to volunteer at a basketball game. Ms. Codd explained that she believed it was a grievance that had been resolved.

Director Burke asked where the funds should have gone if not to the school's ASB fund. Mr. Medina replied that building rental payments should be sent to central accounting rather than to the school.

Director Burke asked who is accountable for deciding school facility usage. Mr. Medina replied that it is the principal.

Director Harris asked about corrective actions and coaching provided to the principal. Executive Director of Schools P-12 Kelly Aramaki stated that the principal really appreciated the internal audit report and that he and the principal have been using it to create new procedures.

### **Audit Response Update**

#### **1. Audit Response Management (Boulmetis)**

Audit Response Manager Annette Boulmetis spoke about staff mix reporting and the progress made. Ms. Boulmetis explained the current process in place for staff mix reporting. Ms. Boulmetis explained the State Auditor Office (SAO) has begun the audit process of Alternative Learning Education (ALE). The Interagency and Cascade schools are being audited and the principals are involved in the process. Ms. Boulmetis spoke about the RFP being issued for the Point of Sale System (PoS).

Director Harris asked when this would be live. Ms. Boulmetis explained it was in September 2017.

#### **2. Instructional Leadership (Tolley, Clancy, Aramaki)**

Associate Superintendent Michael Tolley spoke about the final testing of the IEP online system being complete. Director of Special Education Michaela Clancy summarized the collaboration with DoTS to get this IEP system online and working for the last two days.

Director Burke asked does this system reduce the manual data entry. Ms. Clancy explained it does reduce it and will allow staff to look at other system challenges. She will look into ways of sharing knowledge gained during this process.

Executive Director of Schools P-12 Kelly Aramaki summarized current open audit items at Rainier Beach High School. Mr. Aramaki spoke about having a process in place for when employees are out, which may be intermittent and/or an extended amount of time.

Director Burke asked if a handbook is available to an office sub. Mr. Medina explained that required procedures are in writing. Mr. Aramaki explained a draft handbook is being developed currently.

Mr. Aramaki explained the additional open items would remain open until June 2017 where he will return with a resolution for them.

Director Burke asked if some of the items on the audit-tracking sheet can cross departments. Ms. Boulmetis explained yes they can cross.

Ms. Boulmetis explained the one Capital item in the tracking sheet has been closed. In response to Director Harris's question, Ms Boulmetis confirmed the construction contract "Agreement Between Owner and Contractor" includes the right to impose liquidated damages language.

Director Burke explained the liquidated damages have been a thoughtful conversation in the BEX committee.

### 3. Human Resources (Codd)

Assistant Superintendent of Human Resources Clover Codd spoke about working with DoTS to develop a new profile in SAP that gives additional access for administrators. Ms. Codd explained the process for this would need an extension to November 2017.

Director Harris would like an update at the June meeting. Ms. Codd will bring back the work effort for this project to the June meeting.

Director Burke asked what the complexity factors for this process is. Ms. Codd explained it is more complex than setting permissions. It will require a new profile to be developed.

### 4. Budget & Finance (Berge)

Assistant Superintendent of Business & Finance JoLynn Berge spoke about the establishment of approved service providers.

Director Harris would like to keep the implementation to identify unauthorized personal services contacts to remain on the tracking sheeting showing which of them are still open.

Ms. Berge explained the cost allocation plan is in process and realignment of staff in the Accounting Department is ongoing and will be back in June with an update.

Director Burke ask if the realignment within Accounting will change further with Point of Sale. Ms. Berge explained it should, due to it allowing for automation and therefore resources being freed up.

### Adjourn

**This meeting adjourned at 5:47pm**



# **SCHOOL BOARD ACTION REPORT**

**DATE:** June 6, 2017  
**FROM:** Dr. Larry Nyland, Superintendent  
**LEAD STAFF:** JoLynn Berge, Asst Superintendent for Business & Finance,  
[jdberge@seattleschools.org](mailto:jdberge@seattleschools.org);

**For Intro:** July 5, 2017  
**For Action:** July 26, 2017

## **1. TITLE**

Resolution 2016/17-27, Fixing and Adopting the Budget

## **2. PURPOSE**

This action report calls for adoption by resolution of the 2017-18 recommended budget. The attached presentation provides more detail about planned expenditures.

## **3. RECOMMENDED MOTION**

I move that the School Board adopt Resolution 2016/17-27, to fix and adopt the 2017-2018 Budget.

## **4. BACKGROUND INFORMATION**

The School Board is being asked to adopt the 2017-2018 Recommended Budget. This adoption includes approval of operating transfers from the Capital Projects Fund to the Debt Service Fund up to the amount of \$\_\_\_\_\_, and Capital Projects Fund transfer up to the amount of \$\_\_\_\_\_ to the General Fund.

### General Fund

The 2017-2018 General Fund Budget is recommended at \$\_\_\_\_\_. General Fund resources are comprised of \$\_\_\_\_\_ million in non-grant resources, \$\_\_\_\_\_ million in grant funds, \_\_\_\_\_ million in funding transfers from the Capital Fund for General Fund support of capital projects. Included in these amounts are capacity reserves of \$\_\_\_\_\_ million in non-grant capacity and \$\_\_\_\_\_ million in grant capacity. The capacity reserves are placeholders for potential spending in the event that new revenues are received. Expenditures will not be made against capacity unless actual revenue is received.

### Associated Student Body Fund

The 2017-2018 Associated Student Body Fund Budget is recommended at \$\_\_\_\_\_. The budget is used to support various Associated Student Body activities.

### Debt Service Fund

The 2017-2018 Debt Service Fund Budget is recommended at \$\_\_\_\_\_. This fund will be used to pay the debt service on the 2010 Series-A Refunding bond that financed the John Stanford Center for Educational Excellence. The Debt Service Fund Budget

includes a \$\_\_\_\_\_ million transfer from the Capital Fund for debt payment and \_\_\_\_\_ in capacity in case of emergency spending.

Capital Fund

The 2017-2018 Capital Fund is recommended at \$\_\_\_\_\_. The Capital Fund revenue is comprised of: \$\_\_\_\_\_ million of Building Technology Academics IV and Building Excellence IV levy collections; \$\_\_\_\_\_ million State Assistance Funding; \$\_\_\_\_\_ million E-Rate; \$\_\_\_\_\_ million investment earnings from Building Technology Academics/ Athletics IV, Building Excellence IV, Building Technology Academics III, Building Excellence III, Building Technology Academics II, and Capital Eligible Projects; \$\_\_\_\_\_ million rentals and leases; and \$\_\_\_\_\_ million in a cash flow bond; less \$\_\_\_\_\_ million in funding transfers to the Debt Service, and \$\_\_\_\_\_ million in funding transfers to the General Fund. Estimated beginning fund balance of \$\_\_\_\_\_ million from prior bond sales and levies will also be used to fund projects for the 2017-2018 fiscal year.

a. **Alternatives**

1. The board can choose not to approve the budget. This is not recommended because approval is necessary in order to allow schools, educational support programs and administrative functions to continue operating.
2. The board can choose to make amendments to the recommended budget. This is not recommended due to the significant amount of work and discussions that have already occurred to reach the proposed budget decisions. Making any major changes this late could create a delay in finalizing and submitting the budget to the state.

b. **Research**

This motion reflects the culmination of budget development work that started in October of 2016. This was a public process that included several community meetings and School Board work sessions. A public hearing on the budget will be held on July 19, 2017.

**5. FISCAL IMPACT/REVENUE SOURCE**

Fiscal impact to this action will be \$\_\_\_\_\_ (General Fund), \$\_\_\_\_\_ (Associated Student Body Fund), \$\_\_\_\_\_ (Debt Service Fund), and \$\_\_\_\_\_ (Capital Projects Fund).

The revenue source for this motion is multiple sources.

Expenditure:  One-time  Annual  Multi-Year  N/A

Revenue:  One-time  Annual  Multi-Year  N/A

**6. COMMUNITY ENGAGEMENT**

With guidance from the District's Community Engagement tool, this action was determined to merit the following tier of community engagement:

- Not applicable
- Tier 1: Inform
- Tier 2: Consult/Involve
- Tier 3: Collaborate

Through multiple budget discussions and meetings with our community, labor partners, employees and senior leaders, ongoing programs and new investments for student learning were identified and incorporated into the annual budget decision-making process. A public hearing as required in WAC 392-12-054 shall be take place on July 19, 2017.

**7. EQUITY ANALYSIS**

Detailed review of budget balancing strategies and support needs for the district's equity goals were discussed and evaluated over the last year during development of the proposed budget.

**8. STUDENT BENEFIT**

Adopting the proposed budget benefits students by providing a balanced budget that is designed to provide necessary resources for teachers, teacher support and administrative support for academic success for all students of Seattle Public Schools within the constraints of our current funding environment.

**9. WHY BOARD ACTION IS NECESSARY**

- Amount of contract initial value or contract amendment exceeds \$250,000 (Policy No. 6220)
- Amount of grant exceeds \$250,000 in a single fiscal year (Policy No. 6114)
- Adopting, amending, or repealing a Board policy
- Formally accepting the completion of a public works project and closing out the contract
- Legal requirement for the School Board to take action on this matter
- Board Policy No. 6000, Program Planning, Budget Preparation, Adoption and Implementation, provides the Board shall approve this item
- Other: \_\_\_\_\_

**10. POLICY IMPLICATION**

The 2017-2018 Recommended Budget is in compliance with the following:

- 1) Board Policy No. 6000, Program Planning, Budget Preparation, Adoption, and
- 2) Revised Code of Washington State Law: RCW 28A.505.130 which requires school districts to adopt a balanced budget, RCW 28A.505.060 which requires first-class school districts to adopt a budget no later than August 31st each year and to forward copies of their adopted budget to their Educational Service District no later than September 3<sup>rd</sup>, and RCW 28A.335.060 which allows school districts to deposit revenue into the General Fund from the lease, rental, or occasional use of surplus school property to be expended for general maintenance, utility, insurance costs, and any other costs associated with the lease or rental of such property.

**11. BOARD COMMITTEE RECOMMENDATION**

This motion was discussed at the Quarterly Audit and Finance Committee meeting on June 13, 2017. The Committee reviewed the motion and \_\_\_\_\_.

**12. TIMELINE FOR IMPLEMENTATION**

Upon approval of this motion, staff will file a completed budget with the State. This budget will go into effect on September 1, 2017 and expire on August 31, 2018.

**13. ATTACHMENTS**

- Resolution 2016/17-27, Fixing and Adopting the Budget (for approval)
- Presentation on 2017-18 Recommended Budget

# RESOLUTION OF FIXING AND ADOPTING THE BUDGET

## SEATTLE SCHOOL DISTRICT NO. 1 RESOLUTION NUMBER 2016/17-27

WHEREAS, WAC 392-123-054 requires that the Board of Directors of every school district meet for the purpose of fixing and adopting the budget of the district for the ensuing fiscal year; and

WHEREAS, public notices were published on July 06, 2017 and July 10, 2017 announcing that the Board of Directors of Seattle School District No. 1, King County, Washington, would meet in a public meeting on July 19, 2017 for the purpose of holding a required public hearing regarding the 2017–2018 Fiscal Budget of the district; and

WHEREAS, the Board of Directors has been requested to approve operating transfers from the Capital Projects Fund to the Debt Service Fund up the amount of \$ \_\_\_\_\_ and

WHEREAS, pursuant to RCW 28A.320.330 the Board of Directors has been requested to approve operating transfers from the Capital Projects Fund up to the amount of \$ \_\_\_\_\_ to the General Fund for certain major renovations, facility repairs and technology - related expenditures; and

WHEREAS, pursuant to RCW 28A.335.060, the Board of Directors has been requested to redirect revenues derived from the rental and lease of real property for 2017–2018 to be used exclusively for nonrecurring costs related to operating school facilities up to a maximum of \$ \_\_\_\_\_; now therefore

BE IT RESOLVED that the Board of Directors of Seattle School District No. 1, King County, Washington, has determined that the final appropriation level of expenditures for each fund in 2017–2018 will be as follows:

### APPROPRIATION LEVEL

A. General Fund	\$ _____
B. Associated Student Body Fund	\$ _____
C. Debt Service Fund	\$ _____
D. Capital Projects Fund	\$ _____

BE IT FURTHER  
RESOLVED

that the Board of Directors of Seattle School District No. 1, King County, Washington, approves, in a meeting thereof held July 26, 2017, operating transfers from the Capital Projects Fund to the Debt Service Fund up to the amount of \$ \_\_\_\_\_ and Capital Projects Fund transfer up to the amount of \$ \_\_\_\_\_ to the General Fund and to redirect up to \$ \_\_\_\_\_ of rental and lease revenue to the General Fund.

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ADOPTED by the Board of Directors of Seattle School District No. 1, King County Washington, at a regular open public meeting thereof, held this 26<sup>th</sup> day of July, 2017, the following Directors being present and voting in favor of the resolution.

\_\_\_\_\_  
Director Sue Peters, Board President

\_\_\_\_\_  
Director Leslie Harris, Board Vice President

\_\_\_\_\_  
Director Scott Pinkham, Member-at-Large

\_\_\_\_\_  
Director Stephan Blanford

\_\_\_\_\_  
Director Rick Burke

\_\_\_\_\_  
Director Jill Geary

\_\_\_\_\_  
Director Betty Patu

ATTEST: \_\_\_\_\_  
Dr. Larry Nyland, Superintendent  
Board Secretary  
Seattle School District No. 1  
King County, WA



## **Seattle Public Schools Office of Internal Audit**

### **Internal Audit Follow-up Report Historic Horace Mann School Construction**

Issue Date: June 13, 2017

## **Background**

On June 16, 2015, the Office of Internal Audit issued a construction audit report on the Horace Mann School addition and renovation project. Construction audits are designed to help ensure the effective use of public dollars and provide recommendations to improve the district's construction management practices. In accordance with the 2017 capital audit plan, we have completed a follow-up review to determine if the district has taken appropriate corrective action to resolve the findings in the original report.

## **Roles and Responsibilities**

District management is responsible for taking corrective action to address audit findings. To fulfill this responsibility, the district has a dedicated audit response function to assist departments with the procedures necessary to resolve findings and to provide status updates to the Audit and Finance Committee.

## **Audit Approach**

Management creates a written corrective action plan at the conclusion of each audit. Some key factors to consider regarding capital related corrective action plans are as follows:

- Audit Response must work closely with the Capital Projects and Planning Department to resolve most findings.
- Corrective action plans can require the involvement of departments other than Capital Projects and Planning and can take considerable time to complete, especially when they depend on prerequisite events.
- Some audit recommendations are intended to increase effectiveness or efficiency. They represent opportunities for improvement and do not reflect errors or noncompliance.
- For some audit findings, management may decide to assume the risk rather than try to mitigate it. If, in the judgment of management, the cost of corrective action exceeds the benefit, this may be a reasonable approach. However, if Internal Audit's view is that this approach would subject the district to serious risk, we would report this to the Audit & Finance Committee.

## **Results**

The original Horace Mann audit report contained findings and recommendations pertaining to construction and permitting delays, construction progress schedules, liquidated damages calculations, requests for information, and change order processing.

We consider a finding resolved if the district has implemented our recommendation or taken some other action that sufficiently addresses the issue. The district has taken corrective action sufficient to resolve the findings above.

*Kimberly A. Fry*

Kimberly A. Fry, CPA, CGMA, CCA  
Capital Audit Program Manager



## **Seattle Public Schools Office of Internal Audit**

**Internal Audit Follow-up Report  
Genesee Hill Elementary School Design**

Issue Date: June 13, 2017

## **Background**

On June 21, 2016, the Office of Internal Audit issued a construction audit report focusing on the design of the Genesee Hill Elementary School project. Construction audits are designed to help ensure the effective use of public dollars and provide recommendations to improve the district's construction management practices. In accordance with the 2017 capital audit plan, we have completed a follow-up review to determine if the district has taken appropriate corrective action in response to the findings in the 2016 report.

## **Roles and Responsibilities**

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- Corrective action plans can require the involvement of departments other than Capital Projects and Planning and can take considerable time to complete, especially when they depend on prerequisite events.
- Some audit recommendations are intended to increase effectiveness or efficiency. They represent opportunities for improvement and do not reflect errors or noncompliance.
- For some audit findings, management may decide to assume the risk rather than try to mitigate it. If, in the judgment of management, the cost of corrective action exceeds the benefit, this may be a reasonable approach. However, if Internal Audit's view is that this approach would subject the district to serious risk, we would report this to the Audit & Finance Committee.

## Results

The original Genesee Hill audit report included the following findings:

1. Late redesign of the project resulted in increased costs.
2. Escalation was not included in the maximum allowable construction cost.
3. Stakeholder roles should be more clearly defined.
4. Personal services contracts (PSCs) are poorly managed.

We consider a finding resolved if the district has implemented Internal Audit's recommendation or taken some other action that sufficiently addresses the issue. The district has addressed the findings related to project redesign, escalation, and stakeholder roles. Corrective action for personal services contracts, which includes revisions to PSC procedures, is in progress.

*Kimberly A. Fry*

Kimberly A. Fry, CPA, CGMA, CCA  
Capital Audit Program Manager



**Seattle Public Schools  
The Office of Internal Audit**

**West Seattle High School Internal Audit Report**

**September 1, 2016 through March 31, 2017**

Issue Date: June 13, 2017

**Internal Audit Report  
West Seattle High School  
September 1, 2016 – March 31, 2017**

**Executive Summary**

**Background**

We completed an audit at West Seattle High School for the period September 1, 2016 through March 31, 2017. West Seattle High School is located in the West Region of Seattle Public Schools. It is a comprehensive high school with over 1,000 students and 52 staff, and operates on an annual budget of \$7.4 million. The school offers Advanced Placement courses and Career and Technical Education courses.

Although West Seattle High School was the focus of this audit, our primary goal was to evaluate the overall system of controls put in place by the District. The decentralized nature of a school district results in a situation where many key internal control and compliance functions are performed at the individual schools. The audits conducted at the individual schools will help ensure that these key functions are being performed and are having their intended effect. This audit will also help to highlight those areas where the schools may not have clear guidance on the procedures they are expected to perform, and it will identify those situations where the schools have not been provided adequate resources to perform these key functions properly. In addition to the findings and recommendations noted in this report, the Office of Internal Audit is also using the knowledge gained from the school audits to develop an annual risk assessment that will be used to identify future audit areas.

**Roles and Responsibilities**

This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on September 13, 2016. District Management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

**Audit Objectives**

To ensure compliance and strong financial internal controls in the following areas:

- Associated Student Body (ASB)
- Cash Handling and Receipting

**Scope of the Audit**

September 1, 2016 through March 31, 2017

**Internal Audit Report  
West Seattle High School  
September 1, 2016 – March 31, 2017**

**Audit Approach and Methodology**

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with central administration staff from Accounting, Payroll, Human Resources, and Risk Management to ensure that we had a strong understanding of the District's compliance requirements.
- Conducted a surprise cash count in order to observe operations in their normal environment.
- Interviewed school staff knowledgeable of each objective area.
- Analyzed available data to corroborate the information obtained.
- Examined accounting records and tested supporting documentation.

**Conclusion**

Based on the procedures we performed, the school appears to have adequate controls in each of the objective areas, except for the items noted in this report. This report identifies several recommendations that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the staff at West Seattle High School for their assistance and cooperation during the course of the audit.

*Andrew Medina*

Andrew Medina, CPA, CFE  
Director, Office of Internal Audit

**Internal Audit Report  
West Seattle High School  
September 1, 2016 – March 31, 2017**

**Findings and Recommendations**

**1) Cash Handling and Receipting**

During the course of our audit we identified the following concerns related to cash handling and receipting. The following issues represent basic cash handling and receipting problems that apply to all funds:

- The Fiscal Specialist does not always count funds and prepare a receipt in the presence of the depositor or another individual.
- Receipts are not always issued in sequence and accounted for. The Fiscal Office used two different ASB receipt books concurrently. In addition, receipts are not reconciled to ensure all receipts are accounted for.
- Funds are not always deposited into a District bank account once every 24 consecutive hours, as required by the ASB Procedures Manual and state law.
- Funds collected by staff members and students are not always turned in to the fiscal office on the same day they are collected.

The current procedures do not provide adequate documentation to safeguard district resources, and they increase the risk of theft, loss, and abuse. We do not suspect that an actual loss of funds occurred; however, the current procedures prevent us from providing positive assurance that all funds received by the school were properly deposited into a District bank account.

**Recommendation**

In order to ensure accountability for public resources; reduce the risk of theft, loss, or abuse; and protect itself and its staff from unnecessary scrutiny, we recommend that the School:

- Write a receipt to staff members depositing funds with the Fiscal Specialist at the time the funds are deposited.
- The school should account for all receipts issued to the school by reconciling receipt activity periodically to ensure that each receipt has been either deposited with the fiscal office timely, is intact in the receipt book, or has been properly voided.
- Deposit all funds collected into the District's bank account every 24 hours.
- Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day.

**Internal Audit Report  
West Seattle High School  
September 1, 2016 – March 31, 2017**

**2) ASB Activity Approval and Reconciliation Form**

During the course of our audit, we noted that the ASB Activity Approval and Reconciliation Form is not always being completed as required by the ASB Procedures Manual. The reconciliation form is helpful in verifying that the ASB activity was properly approved and that the proper amount of funds have been collected and deposited into the School's bank account. Without the reconciliation form, it is difficult for the School to effectively monitor its fundraising activities. The reconciliation form allows schools to ensure that their actual profits are reasonable when compared to their planned activity, and to identify potential instances of missing revenue.

In addition, ASB meeting minutes were not documented or retained as required by the ASB Procedures Manual. As a result, we cannot verify that all activities were pre-approved by the student body.

**Recommendation**

We recommend that the School:

- Ensure the ASB Activity Approval and Reconciliation form is prepared and reconciled for all ASB related activities.
- Ensure that meetings take place at regular intervals; document the approval of proposed activities; and retain ASB documents in accordance with the retention schedule noted in the ASB procedures manual.

**Internal Audit Report  
West Seattle High School  
September 1, 2016 – March 31, 2017**

**Response Received from West Seattle High School**

*West Seattle understands the feedback provided to our school regarding Cash Handling and Receipts and ASB Activity Approval and Reconciliation Form. I am confident that each of the areas highlighted in the findings will be addressed and socialized in timely manner.*

*Cash Handling and Receipts we will:*

- *Write a receipt to staff members depositing funds with the Fiscal Specialist at the time the funds are deposited.*
- *The school will account for all receipts issued to the school by reconciling receipt activity periodically to ensure that each receipt has been either deposited with the fiscal office timely, is intact in the receipt book, or has been properly voided.*
- *Deposit all funds collected into the District's bank account every 24 hours.*
- *Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day.*

*ASB Activity Approval and Reconciliation Form we will:*

- *Ensure the ASB Activity Approval and Reconciliation form is prepared and reconciled for all ASB related activities.*
- *Ensure that meetings take place at regular intervals; document the approval of proposed activities; and retain ASB documents in accordance with the retention schedule noted in the ASB procedures manual.*



**Seattle Public Schools  
The Office of Internal Audit**

**Orca K-8 School Internal Audit Report**

**September 1, 2016 through March 31, 2017**

Issue Date: June 13, 2017

**Internal Audit Report  
Orca K-8 School  
September 1, 2016 – March 31, 2017**

**Executive Summary**

**Background**

We completed an audit at Orca K-8 School for the period September 1, 2016 through March 31, 2017. Orca K-8 School is located in the Southeast Region of Seattle Public Schools. It is a progressive alternative school with over 300 students and 26 staff, and operates on an annual budget of \$3.4 million. The school offers a fully integrated sustainability, environmental science, and organic gardening program for all students.

Although Orca K-8 School was the focus of this audit, our primary goal was to evaluate the overall system of controls put in place by the District. The decentralized nature of a school district results in a situation where many key internal control and compliance functions are performed at the individual schools. The audits conducted at the individual schools will help ensure that these key functions are being performed and are having their intended effect. This audit will also help to highlight those areas where the schools may not have clear guidance on the procedures they are expected to perform, and it will identify those situations where the schools have not been provided adequate resources to perform these key functions properly. In addition to the findings and recommendations noted in this report, the Office of Internal Audit is also using the knowledge gained from the school audits to develop an annual risk assessment that will be used to identify future audit areas.

**Roles and Responsibilities**

This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on September 13, 2016. District Management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

**Audit Objectives**

To ensure compliance and strong financial internal controls in the following areas:

- Cash Handling and Receipting
- Risk Management

**Scope of the Audit**

September 1, 2016 through March 31, 2017

**Internal Audit Report  
Orca K-8 School  
September 1, 2016 – March 31, 2017**

**Audit Approach and Methodology**

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with central administration staff from Accounting, Payroll, Human Resources, and Risk Management to ensure that we had a strong understanding of the District's compliance requirements.
- Conducted a surprise cash count in order to observe operations in their normal environment.
- Interviewed school staff knowledgeable of each objective area.
- Analyzed available data to corroborate the information obtained.
- Examined accounting records and tested supporting documentation.

**Conclusion**

Based on the procedures we performed, the school does not have adequate controls in each of the objective areas. This report identifies several recommendations that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the staff at Orca K-8 School for their assistance and cooperation during the course of the audit.

*Andrew Medina*

Andrew Medina, CPA, CFE  
Director, Office of Internal Audit

**Internal Audit Report  
Orca K-8 School  
September 1, 2016 – March 31, 2017**

**Findings and Recommendations**

**1) Cash Handling and Receipting**

During the course of our audit we identified the following concerns related to cash handling and receipting. The following issues represent basic cash handling and receipting problems that apply to all funds:

- Funds are not kept in a safe, but instead are kept in a locked filing cabinet.
- The Fiscal Specialist does not always count funds and prepare a receipt in the presence of the depositor or another individual.
- Receipts are not prepared for all funds collected. In addition, receipts do not always contain all required information. The activity or purpose of the receipt is vague or not listed at all.
- Funds are not always deposited into a District bank account once every 24 consecutive hours, as required by the ASB Procedures Manual and state law.
- Funds collected by staff members and students are not always turned in to the fiscal office on the same day they are collected.
- Checks are not always restrictively endorsed as soon as they are received.

The current procedures do not provide adequate documentation to safeguard district resources, and they increase the risk of theft, loss, and abuse. We do not suspect that an actual loss of funds occurred; however, the current procedures prevent us from providing positive assurance that all funds received by the school were properly deposited into a District bank account.

**Recommendation**

In order to ensure accountability for public resources; reduce the risk of theft, loss, or abuse; and protect itself and its staff from unnecessary scrutiny, we recommend that Orca K-8 School:

- Place all receipts in a locked safe in the school until deposited.
- Complete a receipt in the presence of the depositor, immediately upon receipt of funds, after both people agree to the amount of funds deposited.
- Write a receipt for all funds received by the school, including checks received in the mail.
- Ensure receipts contain all required information, including a description of the activity or purpose.
- Restrictively endorse all checks as soon as they are received.

**Internal Audit Report  
Orca K-8 School  
September 1, 2016 – March 31, 2017**

- Deposit all funds collected into the District's bank account every 24 hours.
- Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day.

## **2) Risk Management (Field Trips)**

The School did not follow District policies and procedures related to field trips. Per Administrative Procedure 2320-A, Field Trips & Excursions, overnight field trips must be pre-approved by the appropriate Executive Director of Schools. Local trips should be requested 45 days in advance of the trip.

Field trip documentation for two overnight field trips were not submitted for approval in a timely manner. One travel request was submitted one day prior to the date of the trip and another travel request was submitted a week after the trip occurred.

### **Recommendation**

We recommend that the School establish and maintain adequate controls to ensure that all field trips follow District policies and procedures. Specifically, it should ensure:

- All overnight field trips are pre-approved by the Executive Director of Schools.
- Documentation for all overnight field trips are submitted for approval with proper amount of advance notice.

**Internal Audit Report  
Orca K-8 School  
September 1, 2016 – March 31, 2017**

**Response Received from Orca K-8 School**

*Official Response to the Performance Audit of SPS Internal Audit From Orca K-8 School*

*June 2, 2017*

*We appreciate the feedback provided to our school regarding some of our processes and procedures as they relate to the audited areas. I am confident that each of the areas in the CAP will be addressed in a timely manner.*

**1) Cash Handling and Receipting**

*We will ensure that we:*

- a. Place all receipts in a locked safe in the school until deposited.*
- b. Complete a receipt in the presence of the depositor, immediately upon receipt of funds, after both people agree to the amount of funds deposited.*
- c. Write a receipt for all funds received by the school, including checks received in the mail.*
- d. Ensure receipts contain all required information, including a description of the activity or purpose.*
- e. Restrictively endorse all checks as soon as they are received.*
- f. Deposit all funds collected into the District's bank account every 24 hours.*
- g. Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day*

**2) Risk Management (Field Trips)**

*We will ensure that:*

- a. All overnight field trips are pre-approved by the Executive Director of Schools.*
- b. Documentation for all overnight field trips are submitted for approval with proper amount of advance notice.*

*Orca K-8 School, June 2, 2017*



**Seattle Public Schools  
The Office of Internal Audit**

**Disbursements Internal Audit Report  
September 1, 2015 through Current**

Issue Date: June 13, 2017

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**Executive Summary**

**Background Information**

The Disbursement process is centralized under the District's Business and Finance Division. The District has adopted the 6200 series of Board Policies and Superintendent Procedures to govern the procurement and disbursement process of the District, and ensure compliance with the Revised Code of Washington. This includes a Districtwide Disbursement Authority Matrix that identifies required approvals based on dollar threshold. All disbursements are paid in accordance to the method the services or item was procured for the District.

There are three major categories by which the District disburses funds:

<b>Procurement Method</b>	<b>2015</b>	<b>2016</b>
<b>Purchase Orders</b>	\$83.3 million	\$94.5 million
<b>Personal Services Contracts</b>	\$26.6 million	\$24.5 million
<b>General Requisitions</b>	\$13.2 million	\$17.1 million

The following information summarizes the payment processes for the District's different procurement methods:

- **Purchase Orders:** There are two kinds of purchase orders prevalent in the District:
  - **One-Time Purchase Orders:** These are one-time purchases that are normally executed through the B2B system. Employees can initiate a purchase requisition in the B2B system, which will automatically route the purchase to the responsible budget manager for approval. The B2B system is aligned with the approval matrix so that only authorized employees can approve a one-time purchase order initiated in the B2B system.

Payment process: The turnaround time for the payment of these orders is faster as the financial approvals are in place ahead of time. The system reflects that the item has been receipted. Once the accounts payable team reviews the quantity, item, and rate in the system, the payment is processed.

- **Open Purchase Orders:** These purchase orders are open for a definite period of time and allow for multiple purchases from a single vendor. Their purpose is to create efficiency with the purchase of numerous small-dollar-value items from a single vendor. District employees need to show a copy of the open purchase order in order to execute the purchase with the vendor. The District is billed directly by the vendor on a regular basis for such orders.

Payment process: These orders require pre-approval and an approved invoice from the budget manager before the accounts payable team will process payment.

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

- **Contracting Services:** This function assists departments with the competitive selection of vendors. The methods of competitive procurement that the District uses include:

- **Bidding Contracts:** The majority of the bidding contracts at the District are construction related.

Payment process: These invoices are paid in accordance to the terms stated in each capital project contract or modification. The invoice is approved by the assigned project manager and certification of services rendered is required, along with any other contractually required documentation, in order to process payments.

- **Request for Proposal:** This type of competitive contracting is the primary means of obtaining consulting services over \$50,000. Vendors are requested to submit proposals for the specific services desired, showing qualifications and content for their proposal. The proposals are evaluated by District staff, and a contract is awarded to the vendor deemed best suited for the District.

- **Master Contracts** are umbrella contracts that the District procures for items that are widely used by District departments. For example, Robert Half has a master contract for staffing purposes. The Request for proposal process is followed for procuring such contracts. Master contracts create efficiencies in the procurement process because departments can use the competitively procured master contracts without having to obtain three quotes each time the services are required. These contracts are renewed on an annual basis.

Payment process: These contracts are paid in accordance to the description of services and terms stated in each contract or modification. The invoice is approved by the budget manager and certification of services rendered is required and verified by the staff that is over the service performed.

- **Personal Services Contracts:** This type of contract provides an agreement between the District and the vendor and relies on the unique skills and experience of the contractor. Personal services contracts are often used to execute Request for Proposal contracts. We have reviewed the procurement process for these contracts in this current audit. This process currently resides in the Business and Finance Division of the District.

Payment process: The payment is processed in accordance to the conditions stated in the contract. The invoice is approved by the budget manager and certification of services rendered is required and verified by the staff that is over the service performed.

- **General Requisition:** The general requisition process is the primary means of obtaining services that are for one-time purchases requiring a quick turnaround time. The general requisition process is intended to accommodate vendors that do not accept District purchase orders as a promise to pay.

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

- Payment Process: Unlike the purchase order and contract processes above, the general requisition process does not have formal approvals that are present and documented in advance. General requisitions only require the budget manager to complete a form approving the payment, and to provide original invoices or other supporting documentation justifying the payment.

The SAP system has two main document types that it recognizes:

- **Document Type 51**: This type of document signifies that the transaction occurred as a result of an official contract. For example a purchase order, a bid, a request for proposal, or a personal services contract.
- **Document 19**: This type of document signifies that the transaction occurred as a result of the general requisition process. Anything that is not processed by a contract process is processed by the general requisition process, including employee reimbursements and travel. All ASB transactions are also processed through this document. ASB purchase orders are a paper process, which are initiated at the schools.

### **Roles and Responsibilities**

This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on September 13, 2016. District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

### **Audit Objectives**

The primary objectives of this audit were to determine if the District's accounts payable function:

- Has adequate internal controls over the payments of goods and services.
- Has adequate policies and procedures over the payment process.

### **Scope of the Audit**

September 1, 2015 through current

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**Audit Approach and Methodology**

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with the Business and Finance Division to ensure that we had a strong understanding of the District's disbursements process.
- Interviewed accounts payable staff knowledgeable of the various processes that were covered during the course of the audit.
- Analyzed available data to corroborate the information obtained during our walkthroughs.
- Reviewed all applicable RCW's, WAC's, and OSPI reference material for state compliance requirements.
- Planned the audit in accordance with the Committee of Sponsoring Organizations of the Treadway Commission. The focus of this methodology is to determine if a framework of internal controls exists, and if those controls are executed in an efficient and effective manner.
- Performed tests and analysis of the objective areas to support our conclusions.

**Conclusion**

Based on the results of the audit procedures performed, the District appears to have adequate internal controls, policies, and procedures over the accounts payable function, except for the items noted in this report. This report identifies recommendations that are intended to improve the overall accountability and transparency of the accounts payable function.

We extend our appreciation to the staff within the Business and Finance Division for their assistance and cooperation during the course of the audit.

*Andrew Medina*

Andrew Medina, CPA, CFE  
Director, Office of Internal Audit

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**Findings and Recommendations**

**1) Personal Services Contracts**

A personal services contract represents an agreement between the District and a contractor that relies on the unique skills and experience of the contractor to provide professional or technical expertise that otherwise cannot be supplemented by current District staff. We tested invoices associated with personal services contracts and determined that the Accounting Department has adequate controls to ensure that the payments are processed properly. However, we noted non-compliance by the budget owners who are responsible for the monitoring the personal services contracts in their departments. Specifically we noted that Departments:

- Allow services to be rendered before a contract modification is approved by the Accounting Department.
- Allow payments against a personal services contract to exceed the total contract amount. Such overspending is not detected by the Accounts Payable Department until after the invoice is received from the vendor.

These items are recurring issues that have been reported in prior internal audit reports.

**Recommendation**

We recommend that the District continue to:

- Train and educate District staff on the proper approval and budget monitoring processes for personal services contracts and modifications.
- Monitor incidents of non-compliance and escalate incidents as necessary.

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**2) Segregation of Duties**

Accounts payable staff have the ability to input contracts in the District's accounting system and to process payments to contractors. We noted instances where the same accounts payable staff person input a contract in the system and processed payments to that vendor. This was mainly done for convenience, as the staff person was familiar with the contract. We are not aware of any inappropriate transactions associated with these contracts, but the responsibilities to input contracts and process payments are considered incompatible functions that should be properly segregated to reduce the risk of fraudulent payments.

**Recommendation**

We recommend that the District properly segregate the functions for inputting contracts and paying invoices to reduce the risk of fraudulent payments. Management should limit user access in SAP to only the role specifically related to an employee's job function.

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**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**3) General Requisitions**

The general requisition process is the primary means of obtaining services that are for one-time purchases requiring a quick turnaround time. The general requisition process is intended to accommodate vendors that do not accept District purchase orders as a promise to pay. We noted the following concerns related to the general requisition process:

- There is a lack of written administrative procedures governing the general requisition process. Administrative procedures should provide written guidelines on when it is appropriate for District staff to use the general requisition process, and when it is acceptable for the Accounting Department to process such transactions. Administrative procedures should establish a clear line of accountability between the staff requesting payments and the accounts payable staff who processing the payments.
- General requisitions, are being used to pay vendors that conduct regular business with the District, rather than just for one-time purchases.
- The general requisition process does not require budget encumbrances or other procedures to ensure adequate funding prior to processing payments. This process can potentially be a work around for District departments that have exceeded their budget.
- Payments for catering expenses with an external vendor were processed through the general requisition process. These expenses were not request through the District's Nutrition Services Department prior to purchasing with an outside vendor. Per District guidelines, catering services for any event paid with District funds should be offered to the District's Nutrition Services Department first.
- Commitment item recording is not always accurate. For example, we noted that a vendor paid by general requisition for a training function was actually posted to the commitment item for supplies. The District's accounting and finance system works in a way that all the commitment items are grouped in categories that roll up in the general ledger. Incorrect coding results in inaccurate account balance that can impact the District's financial statements.

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**Recommendation**

We recommend that the District:

- Create a detailed administrative procedure that identifies how the general requisition process should be used. The procedure should be communicated to all employees, and should be easily accessible on the District's website once completed.
- Create purchase orders or open purchase orders for the vendors that the District uses on a regular basis. This will align the approvals in accordance to the Districts disbursement matrix.
- Add budget approvals by managers as a required pre requisite to the general requisition process, or develop another procedure to verify budget capacity prior to processing a general requisition payment.
- Train and educate District staff that external catering is only allowed when the Districts Nutrition Services Department turns down an offer to provide catering for events paid with District funds.
- Ensure that expenditures are charged to the correct commitment item.

**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**4) Security of Contract Files and Supporting Documentation**

During our audit, we noted that personal services contract files are stored in unlocked file cabinets. The files contain personal information for vendors, such as social security numbers and personal addresses. A lack of security around personal information exposes the District to potential legal, financial, and reputational risk, in the event that personal information is compromised at any level.

**Recommendation:**

We recommend that the Accounting Department restrict access to personal services contract files and create an effective check in and check out process. We also recommend that the Accounting Department conduct a review of other files retained by the department to ensure that any documents containing personal information are adequately secured.

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**Internal Audit Report  
Disbursements  
September 1, 2015 – Current**

**Management Response from Business & Finance**

*We thank our auditors for assessing our processes and internal controls related to the disbursements function of Seattle Public Schools. Management concurs with the audit findings. The areas highlighted in the findings will be addressed in a timely manner. Included below are some steps already taken to address the areas of concerns:*

- *Segregation of Duties - Because of system limitations surrounding the input of contracts and payment invoices, steps have been taken to ensure the person responsible for inputting the contract is not the same person making the invoice payment against the same contract. Additional review and monitoring by management has been added as a compensating control to reduce the risk of fraudulent payments.*
- *Security of Contract Files – Accounting department staff are currently reviewing files and pulling documents containing personal information for secure storage with limited access.*



**Seattle Public Schools  
The Office of Internal Audit**

**Employee Leave Time Internal Audit Report  
September 1, 2013 through August 31, 2016**

DRAFT

Issue Date: June 13, 2017

**Internal Audit Report  
Employee Leave Time  
September 1, 2013 – August 31, 2016**

**Executive Summary**

**Background Information**

The District employs approximately 6,300 full time equivalent employees, the majority of whom accrue leave time for absences such as personal, sick and vacation. Board Policy No. 5400 governs employee leave time and ensures compliance with the Revised Code of Washington. Collective bargaining agreements, management compensation bulletins, and payroll administrative procedures set forth the rules, regulations, and procedures related to accruing leave, and requesting and reporting the use of leave time.

The District uses Employee Self Service (ESS) as its payroll system for reporting employee time and attendance. ESS is an exception-based system, thus employees' regular working hours are pre-populated into the system. Employees only need to access the system to report absences, which are considered exceptions to their regular schedule. If there are no absences that need to be reported, employees do not need to log into the system to record time worked or to certify that their payroll is accurate. Unless employees log in to ESS to record their absences, they are automatically paid their regular wages with no reduction in their leave benefit balance. This applies to standard employees with regular schedules. Hourly employees must log in to ESS to record their hours worked.

In addition to ESS, the District has a substitute management system, Subfinder (replaced with Aesop on July 1, 2016). The substitute management system is used to request and dispatch substitutes to fill employee absences (sick, personal, vacation, etc.) or for other matters such as professional development workshops. Only employees in substitutable positions such as teachers, paraprofessionals, and clerical staff use this system. ESS and the substitute management systems are separate systems with different functions, and the systems are not integrated. Therefore, if a substitutable employee needs a substitute to fill-in for their absence, the employee must record the request for a substitute in the substitute management system and record their actual absence in ESS. If no substitute is needed an employee is only required to report the absence in ESS.

Schools and some departments at central offices have timekeepers to monitor time reporting; however, employees are ultimately responsible for their own leave time. Employees are responsible for recording all absences, and managers are responsible for ensuring that employees are accurately recording absences to ensure accurate time accounting and payroll processing.

District management was alerted to possible absence variances between ESS and Subfinder that may have resulted in unrecorded leave time for substitutable employees. An initial analysis of employee leave time conducted by District management confirmed the discrepancies between absences recorded in Subfinder and ESS, as well as concerns regarding potential unrecorded leave for central administration staff. This information prompted management to request an internal audit of employee leave time for substitutable employees and for non-represented management staff and school administrators.

This audit will also highlight those areas where employees may not have clear guidance on the procedures they are expected to perform, and it will identify those situations where they have not been provided adequate resources to perform these key functions properly.

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## **Roles and Responsibilities**

This audit was completed as part of the amended Annual Risk Assessment and Audit Plan approved by the Audit and Finance Committee on December 13, 2016. District management became aware of concerns related to employee leave time, and upon conducting an initial review determined the concerns could be significant and requested Internal Audit services to ensure a thorough and objective review. District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

## **Audit Objectives and Scope**

The objectives of this audit were to determine if:

- Employee absences were properly recorded in the District's time and attendance system for the following employee groups:
  - Employees Using Subfinder, including Certificated Non-Supervisory Employees, Paraprofessional Staff, and SAEOP (Seattle Association of Education Office Personnel) for the period of September 1, 2014 through August 31, 2016.
  - Non-represented management employees and PASS employees (Principals' Association of Seattle Schools) for the period of September 1, 2013 through August 31, 2016.
- The District has implemented adequate internal controls over employee leave time to ensure accurate reporting and compliance with District's policies and procedures.

## **Audit Approach and Methodology**

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with staff from the Business and Finance, Human Resources, and Payroll departments to ensure that we had a strong understanding of the District's leave time process.
- Interviewed staff knowledgeable of the various processes covered during the course of the audit.
- Reviewed applicable District policies and procedures, collective bargaining agreements, and management compensation bulletins for compliance requirements.

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- Worked with staff from the Departments of Technology Services, Human Resources, and Payroll to obtain accurate and reliable data.
- Conducted a detailed analysis of available data to identify potential unrecorded absences.
- Performed tests and analysis of the objective areas to support our conclusions.

A detailed description of the audit approach and methodology is in the [Appendix](#) of this report.

### **Conclusion**

Based on the results of the audit procedures performed, we confirmed that there are unrecorded employee absences that warrant the District's attention, and that the District does not have adequate controls over leave time reporting to ensure compliance with its policies and procedures. This report identifies recommendations that are intended to improve the overall accountability and transparency of leave time reporting.

We extend our appreciation to the staff within Business and Finance, Human Resources, Payroll, the Department of Technology Services, and staff across school locations and central offices for their assistance and cooperation during the course of the audit.

*Andrew Medina*

Andrew Medina, CPA, CFE, LPEC  
Director, Office of Internal Audit

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**Findings and Recommendations**

**1) Unrecorded Absences for Employees Using Subfinder**

Employees, such as teachers, paraprofessionals, and office staff can request a substitute for absences such as vacation, sick leave, and personal days. During the 2014-2015 and 2015-2016 school years, these employees would request a substitute through the District's Subfinder system. The Subfinder system recorded the dates that a substitute was needed, and the type of absence causing the need for a substitute. However, the Subfinder system was not the official leave timekeeping system for the District, and employees are required to record all absences in Employee Self Service (ESS), which is the District's official timekeeping system.

On July 1, 2016, the District replaced Subfinder with a new substitute management system, Aesop. The new system has primarily the same functionality as the previous system in regards to leave time reporting, and does not interface with ESS.

We conducted a comparison of absences recorded in Subfinder with absences recorded in ESS to determine if all absences were properly recorded. Our analysis was based on the total absence days for a full year and was specific to Subfinder absences recorded as either sick, personal, or vacation days. We excluded absences such as leaves of absence, jury duty, and bereavement leave. Leaves of absence are recorded by the Human Resources Department and appear to have adequate controls. Other leaves such as jury duty and bereavement leave do not impact employee leave balances and are deemed less risky.

The results of our analysis revealed the following variances:

- For the 2014-2015 school year, 1,353 employees recorded more absences in Subfinder than in ESS. The amount of absences that were not recorded in ESS totaled 2,911 days (equivalent to 22,334 hours). Of these employees, 74 recorded zero absences in ESS.
- For the 2015-2016 school year, 1,464 employees recorded more absences in Subfinder than in ESS. The amount of absences that were not recorded in ESS totaled 3,364 days (equivalent to 25,498 hours). Of these employees, 68 reported zero absences in ESS.

The results of our data analysis also revealed the following information relevant to the above variances:

- A total of 560 employees had unrecorded variances in both years which totaled 2,765 days (equivalent to 21,152 hours), which is 44% of the total variance over the two-year period.
- Discrepancies in absence reporting were noted in all three personnel areas: 65% certificated non-supervisory staff, 28% paraprofessional staff, and 7% office personnel.
- Nearly all schools had unrecorded variances, however, seven schools consistently had the highest variance. These schools had a discrepancy of 731 days or 25% of the 2014-15 school year variance, and 952 days or 28% of the 2015-16 school year variance.

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- If employee leave balances were adjusted to correct the unrecorded absences, 423 employees will have a negative leave balance, totaling a negative 11,375 hours.
- There were 76 employees that cashed out 38,354 hours of leave time for a total of \$405,803. These employees had 1,133 hours of unrecorded absences, and 38 of them are still employed by the District.
  - Of these 76 employees, 54 would have a negative leave balance if their balances were adjusted to correct the unrecorded absences. The negative leave balance for these employees would total a negative 845 hours. Seventeen of these employees are still employed by the District.

To confirm the reliability and accuracy of the analysis results, we performed further review of the variances for 40 employees. Based on the work performed, we learned that since our analysis is based on the total absence days for a full year, it is possible for some employees to have logical explanations for their variances.

Exact variances can only be determined by conducting a detailed evaluation of employee records on a daily basis and evaluating the circumstances for each employee. For these reasons, it is also difficult to quantify the overall financial impact to the District. The financial impact depends on whether the employees used their inflated leave balances to take leave or if they chose to cash it out. Each employees' rate of pay, and the rate of pay of the substitute employees, also impact the financial calculation. As a result, we have not calculated the financial impact to the District.

## **Recommendation**

We recommend that the District take steps to adjust employee leave balances for absences that were not recorded in ESS. We suggest that letters be sent to employees informing them that their leave balance will be adjusted unless they can provide adequate documentation by a specific date. Management should work with the collective bargaining groups prior to finalizing the letters.

The letters should include the following information:

- Details of employee's unrecorded variances and total leave that will be adjusted.
- Deadline by which the employee must provide supporting documentation to demonstrate that their leave balance is correct and does not require adjusting.
- Contact information for employees to provide documentation and ask questions.
- Appeals process an employee can follow if they disagree with the determination made after submitting their supporting documentation.

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**2) Unrecorded Absences for PASS and Non-Represented Management Staff**

Unlike employees that use a substitute management system, PASS (Principals' Association of Seattle Schools) employees and non-represented management staff only record absences in Employee Self Service (ESS). Since they cannot request a substitute to cover their absences, there is no secondary system documenting their absences. We analyzed ESS data from September 1, 2013 to August 31, 2016 to identify employees that may have under-recorded their absences. Specifically, we analyzed data for employees that recorded zero, or very few absences. The results of this analysis revealed that:

- The District employed 857 PASS and non-represented management employees during this time period.
- These employees recorded an average of 23 absence days per year.
- A total of 138 employees had at least one year where they recorded less than three days of absences. Of these employees, 77 had at least one year where they recorded zero absences.
- A total of 48 employees recorded less than three absences for two or more years.

We examined the 48 employees who recorded less than three absences for two or more years and determined that there was a logical reason why there were no absences or very few absences reported for 34 employees. We considered start and end dates of employment, leaves of absences, changes in employee position (e.g. teacher to principal), changes in type of employment (e.g. casual hourly to regular salary), and the number of days the employee was contracted to work. The remaining 14 employees with less than three absences for two or more years will require additional analysis to determine if the employee has unrecorded absences. Included in this analysis are six employees who had two or more years where they recorded zero absences. We selected these six individuals for further review and interviewed the managers who supervised these employees. Interviews with the managers revealed the following:

- Two employees had no leave, due to limited staff in their department and time sensitive projects that made it difficult to take time off.
- Two employees no longer work for the District. One employee was known for not missing any days of work. The manager for the second employee no longer works for the District.
- Two employees were recalled to have taken leave and the managers agreed to conduct additional procedures to determine if the employees had unrecorded absences.

We also noted that a total of 463 employees cashed out leave totaling \$3.97 million. Fourteen of these employees, nine of which are still employed by the District, recorded less than three days of absences for two or more years and cashed out 5,983 hours of leave for a total of \$173,086. Cash-out amounts for these 14 employees ranged from \$547 to \$35,892.

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**Recommendation**

We recommend that the District determine if leave balances should be adjusted for the 14 employees requiring additional analysis that recorded less than three days of absences for two or more years. The District should work with the employees and their direct supervisors, and review employee calendars, emails, and other supporting documentation to determine if the employees have unrecorded absences. Any unrecorded absences detected should be adjusted accordingly. The District should also determine if the unrecorded absences impacted any employee cash outs and seek reimbursement if applicable.

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### **3) Internal Control Weaknesses Over Employee Leave Time**

#### Internal Controls Over Absence Monitoring and Approval Process

We met with key personnel involved in the monitoring and approval of absence reporting across various schools and departments. We identified the following weaknesses that may have contributed to discrepancies in leave time reporting:

- Many principals and managers rely heavily on a timekeeper to ensure the accuracy of absence reporting; however, the timekeepers have not received adequate guidance and training to ensure they are monitoring absences appropriately.
- The training, resources, and guidance provided to timekeepers, principals, and supervisors does not contain enough detail to illustrate the necessary steps required to ensure accurate absence reporting. The current level of training provided is considered vague by timekeepers and often leaves attendees with unanswered questions and without specific examples of the steps they should be taking to verify accurate leave time recording.
- The procedures and level of detail conducted to monitor absence reporting varies across schools and departments. There are no standard exception reports or reconciliation procedures that must be performed on a regular basis.
- The frequency that school timekeepers performed a reconciliation between the substitute management system and ESS varies from weekly to every three months, and some schools only spot-checked absence reporting every so often. There are no clear expectations for timekeepers to follow in regards to how often they must perform a reconciliation.
- When staff fail to report absences in ESS timely, timekeepers often send reminders to staff, but there are inconsistencies in the level of follow-up procedures performed by the timekeepers. Some timekeepers stop after they send a reminder without performing additional reconciliation procedures. Other timekeepers will input absences on an employee's behalf if the employee fails to record their own leave. Timekeepers lack guidance on how they should proceed when they identify unrecorded absences and what degree of authority they have to correct an employee's leave recording.
- Administrative procedures related to absence reporting are not easy to find on the intranet and are not shared with employees regularly to remind them of their leave time recording responsibilities. In addition, timekeeping is only briefly covered in new employee on-boarding. This lack of attention does not demonstrate a strong tone at the top regarding the importance and accountability of accurate leave time recording.
- The following circumstances can increase the likelihood of unrecorded absences because the managers do not always have firsthand knowledge of employee leave time:
  - Decentralized reporting structures, where supervisors must monitor leave time for employees assigned to different building locations.

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- Supervisors with a large number of staff that report directly to them.
- Employees whose direct supervisor is not responsible for their leave time approval. Departments may be structured with multiple levels of supervision, but leave time approval is assigned to the department director.
- There is unclear guidance regarding compensatory time (time off in lieu of pay) as well as flexible time (alternate work schedules). Many District employees work in excess of 40 hours per week; however, there is limited guidance advising employees on when they can make up an absence instead of using leave time, or what type of documentation and approval are required when an employee will be making up time.

Internal Controls Over the Substitute Management System and Employee Self Service

During the course of our audit, we noted the following concerns in the District's substitute management system and timekeeping system.

- Having two separate systems to record absences that are not integrated increases the likelihood of discrepancies in absence reporting.
- The District's exception based payroll system does not require standard employees to enter their time worked, or to certify the accuracy of their time and attendance reporting. Unless employees log in to ESS to record their absences, they are automatically paid their regular wages with no reduction in their leave benefit balance. Since employees will continue to be paid if they fail to log in to ESS, it increases the likelihood of unrecorded absences.
- Employees cannot access ESS unless they are signed into the District's network, which increases the likelihood that they will forget to record their absences upon returning to work. In addition, since employees do not regularly access ESS they may not remember to input absences.
- Incorrect personnel numbers were used in Subfinder. We found personnel numbers reported in Subfinder that did not exist in ESS or were for entirely different employees.
- Attendance for professional development workshops were miscoded as sick or personal leave in Subfinder. Employees are unable to request a substitute in the substitute management system for professional development workshops. Only the designated timekeeper or Human Resources Department can request a substitute for professional development leave. Rather than wait for the timekeeper or Human Resources to request a substitute to cover professional development leave, an employee may intentionally record the leave as either sick leave or personal leave in the substitute management system in order to ensure that a substitute will be available to cover their class.
- Substitutes were requested for employees that no longer worked for the District. This occurred when the school needed a substitute to fill absences created by vacant positions.

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- Absences were reported in the substitute management system for employees that did not require a substitute to fill the vacancy. The system has the option to select whether a substitute is required or not required. There is inconsistent information about when the substitute management system should be used. Some employees are informed to record all absences in the substitute management system, and some only use it when a substitute is required.
- Employees were able to request more than 1.0-day absence for one full day in Subfinder. We learned this was addressed with the implementation of the new Aesop system as it limits the maximum number of hours to 8.5 hours for any given day.

The impact due to discrepancies in time and attendance reporting is not only limited to Seattle Public Schools. There are instances in which employees have the option to retain and transfer their leave benefit balance when resigning from the District and becoming employed at another school district in the state of Washington. The risks are then passed on to the new district and ultimately public resources are at risk of over-payment.

## **Recommendation**

We recommend that the District:

- Establish a strong tone at the top message regarding accurate leave time recording, and increase the awareness of the requirements associated with recording absences. Management plays a critical role in setting the tone for staff, and a convincing message regarding management's commitment to accountability can increase employee compliance.
- Improve the training, guidance, and resources provided to timekeepers, principals, and managers to ensure consistent and accurate recording of employee absences. Specifically, the guidance should be easily accessible and should include:
  - Which reports should be generated in order to complete a reconciliation between ESS and the substitute management system.
  - How often the reconciliation needs to be performed.
  - What follow-up procedures should be conducted when variances are noted.
  - What authority timekeepers and supervisors have to ensure the proper recording of employee leave balance, including whether or not timekeepers can input leave on behalf of employees.
- Improve the guidance related to compensatory time and flexible time to ensure that employees understand when they must record an absence in ESS.

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- Review the number of employees assigned to each manager to ensure that managers can reasonably monitor employee absences. In addition, review the assignment of the absence approval role in ESS to ensure that managers that have direct knowledge of employees' work and attendance are assigned to approve employees' absences.
- Require employees to certify in ESS each pay period that their recorded leave time is accurate.
- Implement procedures to hold employees and supervisors accountable for proper leave time reporting.
- Explore integrating the District's substitute management system and ESS systems to ensure proper leave recording as well as improve efficiency. In combination with strengthening internal controls, this should increase the accuracy of time and attendance reporting, reduce potential overpayments, and reduce time and resources spent to reconcile the two systems.
- Until the substitute management system and ESS are integrated, implement additional monitoring controls to assist in identifying instances of unrecorded leave on a timely basis, and to assist in reconciling the time and attendance system with the substitute management system. A periodic review of exception-based absence reports for all employees, including substitutable employees, PASS, and non-represented management should be performed.
- Ensure only valid personnel numbers are used in the substitute management system.
- Strengthen its controls to ensure correct absence codes are used in the substitute management system and ESS. Explore ways to better track professional development without impacting employee leave balances and consider allowing employees the ability to record their own professional development in the substitute management system.
- Ensure terminated employees are promptly removed from both systems and record the position that requires a substitute as a vacancy in the substitute management system rather than have it tied to a terminated employees' personnel number.
- Clarify when the substitute management system must be used. Specifically, inform employees if it should be used to record all absences or only absences when a substitute is required to fill a position.

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**Management Response**

*We concur with the findings outlined in this report. As noted in the report, this work was done at the request of District management. A thorough review of reported absences is currently underway. It is our belief there are system improvements that will require technology solutions. We will be working with our Department of Technology Services to outline and determine system improvements and next steps.*

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**Appendix: Audit Approach and Methodology**

Our analysis of unrecorded leave is based upon a large amount of employee data analyzed over a multi-year period. The following information summarizes the procedures we performed in order to complete the analysis and discusses some of the challenges associated with the analysis:

During our analysis, we found certain limitations of the data that prevent us from reporting exact figures. As a result, there could be more or less discrepancies than our report indicates. Further information of our approach and methodology are detailed below:

1.) Substitutable Staff (Teachers, Paraprofessionals, Office Personnel)

- i. We analyzed two years of relevant data, during September 1, 2014 through August 31, 2016 to identify unreported absences in the District's time and attendance system. We compared absence data from the substitute management system and the time and attendance system. The expectation is that when an employee in a substitutable position will be absent from his/her position, the employee or Substitute Office will document the reason for the absence in the substitute management system and request a substitute to fill the absence. In addition, the employee must also record the absence in the time and attendance system to reflect actual time worked.
- ii. We focused our analysis on sick, personal, and vacation leave and did not include other absence types reported in Subfinder. Approximately, 74% of absences were coded as sick or personal leave, 23% as leaves of absence, and 3% as bereavement or jury duty. We excluded Subfinder absences coded as "leave of absence" from our analysis as these types of absences are processed differently from other types of absences. See further explanation under paragraph iv below. We determined the likelihood of misreporting bereavement, jury duty, and leaves of absences was a lower risk.
- iii. The type and level of detail in absence data reported in both systems are not the same; therefore, we used our best judgment to analyze the data.
  - a. The difference in reporting between the systems contributes to some employees showing greater amount of absences reported in ESS compared to the substitute management system. ESS shows the actual number of hours and days per absence reported. The Subfinder system only shows absences in half or full days. An employee may actually report less than a half-day absence in ESS, but still report a full day absence in Subfinder. In addition, we noted instances when an absence may be reported in ESS; however, no substitute was requested in Subfinder.
  - b. The absence codes used in Subfinder compared to ESS are not the same. Subfinder has six absence codes compared to twenty-one (21) codes for ESS. Therefore, an absence may be reported as one type such as "Sick Leave" in Subfinder and be reported as a different absence type in ESS such as injury on duty.

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1.) Substitutable Staff (Teachers, Paraprofessionals, Office Personnel) Continued

- i. Absence codes in Subfinder include: Sick, personal, vacation, military, bereavement, jury duty, and leave of absence.
- ii. Absence codes in ESS include: Sick, personal, vacation, vacation during break, adoption, bereavement, jury duty, snow/inclement weather, no leave available, emergency leave, injury on duty – paid, injury on duty – unpaid, IOD medical treatment, military leave, sub sick leave, religious leave - unpaid, unpaid leave, unpaid sick, shared leave, unpaid child care, and unpaid child bearing.
- c. For each employee, we summed the aggregate amount of sick, personal, and vacation absence days reported in Subfinder and compared this to the aggregate amount of absence days we believed reasonably could have been used in ESS. Thus, we included all absence codes noted in the preceding paragraph, with the exclusion of adoption, no vacation during break, no leave available, or snow/inclement weather as we found employees included in our analysis did not have these types of absences reported in ESS.
- d. Although we excluded absences coded as “leave of absence” within Subfinder from our analysis, we did not have a reasonable method to distinguish which absences in ESS are actually related to those leaves of absences. Thus, our analysis is likely giving more credit to some employees’ absences reported. As an example, an employee may have five sick leave days and 10 leave of absence days reported in Subfinder, those absences could be reported as any given paid or unpaid code in ESS such as unpaid leave, unpaid sick, etc.
- iv. Excluding all “leaves of absences” from Subfinder data limited our analysis to those employees that truly appeared to have under-reported absences in ESS. When employees are inactive and in unpaid status, they are no longer considered active in the District’s accounting system. This “shuts down” those employees, which prevents them from being paid or earning benefits. No absences are inputted into ESS at this point. This action is performed by Human Resources. If we include leave of absences in our analysis, it would result in a significant discrepancy in our analysis as Subfinder may show leave of absence reported, however, for many employees there will be no absences reported in ESS.
- v. We estimated employee leave benefit balances after taking into account the unreported absences that should have reduced the leave balances. We converted the total number of unreported absence days into hours based on employees FTE and the amount of regular working hours per day, which is based on an 8-hour or 7-hour day depending on the employees’ position type. We assigned 8-hour days for teachers and office personnel and 7-hour days for paraprofessionals.

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- vi. The Payroll Department provided employee leave benefit balances as of December 2, 2016 and cash out data as of August 31, 2016. Exact adjustments to balances will vary depending on leave used, accrued amounts, and leave cash outs made since then.
  - vii. To confirm the reliability and accuracy of the results of our analysis, we selected 40 employees from our analysis that appeared to have unreported absences for further testing. We judgmentally selected employees for further testing that appeared to be higher risk including employees with large amount of variance in unrecorded absences, employees that had zero absences reported in ESS, employees with large estimated negative leave balances, and employees with leave cash outs. We compared line by line, the exact dates that absences were reported in both systems.
  - viii. Our analysis provides a starting point for identifying employees that may have discrepancies in absence reporting due to the aggregate approach we used in estimating total absences and the limitations of data we have noted above. However, there are likely to be variances between the results of the analysis and the employee's actual unrecorded absences, which could only be determined by conducting a detailed evaluation of each employee's records.
- 2.) Non-represented Management and PASS Staff
- i. We analyzed three years of relevant data, September 1, 2013 through August 31, 2016 to identify unrecorded absences in the District's time and attendance system.
  - ii. We evaluated the data to determine whether there may be a reasonable explanation for why there were no absences reported such as leaves of absences. For example, when employees are in inactive/unpaid status absences are no longer reported in the system. We also took into consideration employee start/end dates and changes in personnel type. For example, an employee may start employment as a regular management and later change to a casual hourly employee that do not earn or use leave.
  - iii. We determined whether employees had less than 3 days of absences recorded in ESS per year. Of those employees, we noted which had two or more years of no absences recorded during the 3-year period. We judgmentally selected employees that had multiple years of no absences reported for further review. After eliminating employees that appeared to have logical explanations for no absences reported, we identified six employees (2 principals, 4 management) that had two or more years of no absences reported to evaluate further.
  - iv. To confirm the reliability and accuracy of the results of the analysis, we tested 48 employees from our analysis that had less than 3 days of absences per year, for multiple years, including the 6 employees with no absences reported for multiple years. We compared the total amount of absences from the analysis to what was recorded in ESS.
  - v. We met with the six selected employees' direct supervisors to determine whether it was reasonable for employees to have no absences reported during a school year and to gain an understanding of how supervisors monitor leave time.

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- vi. Our analysis provides a starting point for identifying employees that may potentially have discrepancies in absence reporting as indicated by unusually low amount of absences reported. However, determining whether an employee actual has unrecorded absences could only be determined by conducting a detailed evaluation of each employee's records.

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Follow Up to May 10, 2017 Oversight Work Session  
Internal Audit Recommendations Not Implemented as of 03/15/17 (27 of 292 Total Recommendations (8%))

	A	B	C	E	H	I	M	T
2	1	2	3	4	7	8	11	17
3	Responsible Senior Executive	Audit	Recommendation (Paraphrased)	Date Audit Presented to A&F	Estimated Date to Resolve CAP	Date CAP Completed & Ready for a Follow-up Audit	Due Date to Resolve CAP	Months CAP Behind Schedule (grouped)
15	Clover Codd	Quality of Employee Evaluations	Custodian & Grounds - Establish a separate rating document for grounds employees.	12/18/12	<del>Summer-2013</del> <del>Summer-2014</del> 2017 - Must be bargained		<b>09/18/17</b>	
16	Clover Codd	Quality of Employee Evaluations	Custodian & Grounds - Revisit the evaluation forms to allow for more comments related to the employee's developmental opportunities, and establish an expectation for the evaluator to provide evidence to support the employee's ratings.	12/18/12	<del>Summer-2013</del> <del>Summer-2014</del> <del>8/29/14</del> <del>12/1/14</del> 2017 - Must be bargained		<b>09/18/17</b>	
30	Clover Codd	Human Resources Follow-up	Segregate the payroll and human resources transactions in the SAP system so that employees only have access to the transactions applicable to their job duties and responsibilities.	12/13/16	Sept 2017		<b>06/13/17</b>	
31	Clover Codd	Human Resources Follow-up	Limit access to the change employee pay data in the SAP system to the specific employees who are authorized to make salary changes.	12/13/16	Sept 2017		<b>06/13/17</b>	

Follow Up to May 10, 2017 Oversight Work Session  
Internal Audit Recommendations Not Implemented as of 03/15/17 (27 of 292 Total Recommendations (8%))

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3	Responsible Senior Executive	Audit	Recommendation (Paraphrased)	Date Audit Presented to A&F	Estimated Date to Resolve CAP	Date CAP Completed & Ready for a Follow-up Audit	Due Date to Resolve CAP	Months CAP Behind Schedule (grouped)
53	Flip Herndon	Custodial Services and Grounds Follow-up Audit	Pay overtime in accordance with the CBA language, or change the CBA language to match actual overtime compensation practice.	06/16/15	2017 - Must be bargained		09/16/18	
54	Flip Herndon	Custodial Services and Grounds Follow-up Audit	Review CBAs with other labor groups and ensure they are aligned with current practices for overtime compensation when employees are paid leave status.	06/16/15	2017 - Must be bargained		09/16/18	
71	JoLynn Berge	Central Administration of Items Related to Schools	Implement a point-of-sale system.	06/19/14	<del>TBD Based on Funding July 2017</del>		09/19/17	
77	JoLynn Berge	Procurement	Implement additional controls to identify unauthorized contracts.	06/21/16	<del>Dec 2016</del> <del>Mar 2017</del> June 2017		12/21/16	4-6 Months
81	JoLynn Berge	Procurement	Update the Superintendent Procedures related to procurement to require Board approval when payments to a single vendor exceed a specific threshold.	06/21/16	<del>Dec 2016</del> <del>Mar 2017</del> June 2017		12/21/16	4-6 Months
97	JoLynn Berge	Central Admin Cash Handling & Deposits	A review of the workload of the individuals responsible for posting daily receipting to SAP may disclose some reasons for the posting delay.	09/13/16	<del>Mar 2017</del> June 2017		03/13/17	1-3 Months

Follow Up to May 10, 2017 Oversight Work Session  
Internal Audit Recommendations Not Implemented as of 03/15/17 (27 of 292 Total Recommendations (8%))

	A	B	C	E	H	I	M	T
3	Responsible Senior Executive	Audit	Recommendation (Paraphrased)	Date Audit Presented to A&F	Estimated Date to Resolve CAP	Date CAP Completed & Ready for a Follow-up Audit	Due Date to Resolve CAP	Months CAP Behind Schedule (grouped)
276	Michael Tolley	Rainier Beach High School	Instruct all staff members to promptly deposit any funds collected during the day with the fiscal office prior to the end of the day.	12/13/16			06/13/17	
277	Michael Tolley	Rainier Beach High School	Ensure that the fiscal office is open and staffed by someone who can collect funds and write receipts during normal school hours. For those instances when the fiscal office must be closed, it should create and communicate an alternate system to allow students and staff to deposit funds on the same day they are collected.	12/13/16			06/13/17	
278	Michael Tolley	Rainier Beach High School	Deposit all funds collected into the District's bank account within 24 hours of receipt.	12/13/16			06/13/17	
279	Michael Tolley	Rainier Beach High School	Deposit all funds intact and purchase all supplies and inventory in accordance with established District procedures.	12/13/16			06/13/17	
280	Michael Tolley	Rainier Beach High School	Use the District's secure courier service to transport all deposits to the commercial bank.	12/13/16			06/13/17	

Follow Up to May 10, 2017 Oversight Work Session  
Internal Audit Recommendations Not Implemented as of 03/15/17 (27 of 292 Total Recommendations (8%))

	A	B	C	E	H	I	M	T
3	Responsible Senior Executive	Audit	Recommendation (Paraphrased)	Date Audit Presented to A&F	Estimated Date to Resolve CAP	Date CAP Completed & Ready for a Follow-up Audit	Due Date to Resolve CAP	Months CAP Behind Schedule (grouped)
281	Michael Tolley	Rainier Beach High School	Train staff members to ensure that all employees understand that purchases for goods or services cannot be initiated without a properly pre-approved purchase order or personal services contract.	12/13/16			06/13/17	
282	Michael Tolley	Rainier Beach High School	Assign responsibility for creating purchase orders and personal services contracts to ensure staff have a clear understanding of what role they play in initiating purchases with vendors.	12/13/16			06/13/17	
283	Michael Tolley	Rainier Beach High School	Establish clear communication expectations for staff members to ensure that all emails and voicemails are addressed in a timely manner.	12/13/16			06/13/17	
284	Michael Tolley	Rainier Beach High School	Ensure all overtime is documented on a properly completed time sheet.	12/13/16			06/13/17	
285	Michael Tolley	Rainier Beach High School	Route completed time sheets to the administrative secretary first and then to the principal for approval. A copy of the approved time sheet can then be routed to the Fiscal Specialist if needed.	12/13/16			06/13/17	

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3	Responsible Senior Executive	Audit	Recommendation (Paraphrased)	Date Audit Presented to A&F	Estimated Date to Resolve CAP	Date CAP Completed & Ready for a Follow-up Audit	Due Date to Resolve CAP	Months CAP Behind Schedule (grouped)
286	Michael Tolley	Rainier Beach High School	Appoint a volunteer coordinator to ensure compliance with the District's procedures related to the use of volunteers. The volunteer coordinator should ensure staff members receive adequate training regarding the use of volunteers, and the School has established adequate controls to ensure that all required documentation related to volunteers and chaperones is properly completed and retained.	12/13/16			06/13/17	
287	Michael Tolley	Rainier Beach High School	Ensure all overnight field trips are pre-approved by the Executive Director of Schools on appropriate forms.	12/13/16			06/13/17	
288	Michael Tolley	Rainier Beach High School	Ensure documentation is maintained demonstrating that all chaperones have been properly screened and trained.	12/13/16			06/13/17	
289	Michael Tolley	Rainier Beach High School	Ensure a Mandatory Trip Supervision Plan has been properly developed and communicated to appropriate personnel for all overnight field trips.	12/13/16			06/13/17	

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3	Responsible Senior Executive	Audit	Recommendation (Paraphrased)	Date Audit Presented to A&F	Estimated Date to Resolve CAP	Date CAP Completed & Ready for a Follow-up Audit	Due Date to Resolve CAP	Months CAP Behind Schedule (grouped)
290	Michael Tolley	Rainier Beach High School	Ensure all field trip expenditures and fundraisers are processed through a District account.	12/13/16			06/13/17	
291	Michael Tolley	Rainier Beach High School	Ensure the District's facility usage calendar accurately categorizes events as either internal or external.	12/13/16			06/13/17	
292	Michael Tolley	Rainier Beach High School	Ensure outside groups using its facilities have complied with all of the District's insurance requirements and rental fees before allowing them access to the building.	12/13/16			06/13/17	

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