

Board Special Meeting

John Stanford Center – Board Office Conference Room

2445 3rd Avenue South, Seattle, WA 98124



Audit & Finance Committee Meeting
Quarterly Audit Meeting
Tuesday, September 13, 2016
4:30 – 6:30 pm

Call to Order

5 mins

1. Board members and staff present
2. Approval of Agenda
3. Approval of June 21, 2016 meeting minutes

Items Requiring Board Action

1. Amending Board Policy 5251, Ethics (Medina)

5 mins

Internal Audit

1. Central Administration Cash Handling and Deposits Audit (Medina/Nystul)
2. Approval of Internal Audit Annual Plan (Medina)

10 mins

10 mins

Audit Response Updates

1. Audit Response Management (Boulmetis/Berge)
2. Curriculum & Instruction (Tolley/Clancy/VanDerPloeg)
3. Capital Projects (Herndon/Best)
4. Business & Finance (Berge)

10 mins

10 mins

10 mins

10 mins

Upcoming Meetings

- December 13, 2016 Quarterly Audit Meeting
- March 14, 2017 Quarterly Audit Meeting

*Please note that A&F is a working committee of the Board. Documents may change before the meeting and/or prior to their introduction before the Board. The Board Office maintains the archive for documents that were presented at the meeting.

Board Special Meeting

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2445 3rd Avenue South, Seattle, WA 98124



Audit & Finance Committee Meeting Minutes Quarterly Audit Meeting Tuesday, June 21, 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 and Blanford.

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

Approval of Agenda

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

Director Blanford moved to approve the March 15, 2016 meeting minutes. Director Peters seconded. The minutes were unanimously approved.

State Auditor's Office

1. Accountability Exit Conference (Kavanaugh/Wiley)
Lead Auditor Anastasia Kavanaugh thanked employees of the school district.
Auditor in Charge Heidi Wiley spoke about the audit report on page 4, she explained the District no findings and no management letters, it is a very clean audit. Ms. Wiley directed everyone to the accountability exit item handout.

Director Blanford asked about the two bids, he wants to know if it was due to vendors not being responsive. Ms. Kavanaugh explained the District only deals with two electric suppliers therefore a third one was not used. Ms. Wiley summarized additional audit items.

Director Blanford asked is this a central office problem. Ms. Wiley explained the current fixed asset system being using is an older MS-DOS system. And in the warehouse they are implanting a new receipt system.

Director Blanford asked what would be the most important issue on the exit items. Ms. Kavanaugh explained that it would be the assets system because in terms of potential fraud it is a large item.

Ms. Wiley explained no changes have been made to audit costs since the previous month.
Ms. Wiley spoke about the how they performed the Seattle School District Accountability audit for 2015. There were no prior audit findings or management letter items. Recommendations not included in the Audit Reports exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

State Auditor's Office (SAO) reports are published on their website and distributed via e-mail in an electronic file. SAO also offers a subscription service that allows you to be notified by email when audit reports are released or posted to our website.

At the entrance conference, the SAO estimated the cost of the audit to be \$323,040 and actual audit costs will approximate that amount. The actual audit costs for the Financial Statement and Single audit were \$132,250 and actual costs for the Accountability audit is \$190,790. The next audit is scheduled to be conducted in November 2016, Accountability for Public Resources, Financial Statement and Federal Programs.

Internal Audit

1. Internal Audit Update (Medina)

Director of Internal Audit & Ethics Officer Andrew Medina stated that four audits would be presented. Mr. Medina introduced Capital Audit Program Manager Kimberly Fry who will be presenting two Capital Audit reports. Ms. Fry spoke about the Fairmont Park follow up audit. The original audit was from 2014 and had findings in three areas. All items were resolved and this is a clean audit.

Ms. Fry discussed the Genesee Hill Elementary School design audit. She explained that the project is at the end of construction. The audit has findings and recommendations in four areas. Ms. Fry summarized the four recommendations. Her first recommendation relates to the timing of value engineering. Earlier value analysis could have revealed the need to explore other design options for Genesee Hill. The next part of this recommendation relates to controlling cost and doing so with transparency.

Ms. Fry spoke about the second finding, which pertains to the Maximum Allowable Construction Cost (MACC). Construction estimates should always include escalation. She recommended this be standard practice.

Ms. Fry explained the third finding relates to the role of the School Design Advisory Team (SDAT). The recommendation is the District emphasize project budget limitations. As the custodian of BEX funds, the District must exercise control over project budgets and is responsible for final design decisions.

The last finding Ms. Fry spoke about is regarding the need for departments to monitor their Personal Services Contracts (PSCs). PSC were found to have been modified after expiration. Some paid the wrong hourly rates throughout the contract and others increased the rate retroactively, after services had already been performed. The recommendation is that PSC procedures be revised to require initiating departments to adequately monitor their PSCs.

Director Blanford asked how the District paid a higher rate. Ms. Fry explained it is easy to see the amount is incorrect and we just were not looking.

Director Peters asked what the total amount of the contract. Ms. Fry didn't have the exact amount but stated that it was at least \$80,000 and that the contract had been modified numerous times.

Director Blanford asked about how would SDAT be involved in the process. Richard Best explained they work with SDAT to have site specific programs, and suggested more care to project budget and to have a process in place. Mr. Best spoke about how he is in agreement with not moving forward with design until it is within budget.

Blanford asked about being in contact with Ms. Fry throughout the audit. Mr. Best confirmed they worked with Ms. Fry.

Director Peters asked what is the background on Genesee Hill, was the architect involved. Mr. Best explained the architect is looking at schemes as they are developed. In this case it went over budget prior to approval.

Director Peters asked do these steps already exist or were they just not followed. Mr. Best explained they do exist but just were not followed. Ms. Fry stated that there is a management response but there is always follow up on every finding.

Mr. Medina spoke about the procurement audit. This focused on how the District procures goods and services. This did not include procurement related to public works, which is mainly construction bid-type procurement, which would be covered by our Capital Audit program. Mr. Medina explained it did not focus on federal procurement requirements, which are reviewed regularly by the State Auditor's Office during their single audit work. Mr. Medina spoke about finding #1 (page 5): Deals mainly with services starting before a contract is approved. Mr. Medina noted that District staff will sometimes ask a vendor to provide services before they get a personal services contract approved. These instances are not caught until the invoice is received by accounting, if they are caught at all. Mr. Medina spoke about how personal services contracts will be created after the fact and the responsible employee will be counseled on proper procedure, but Internal Audit is recommending that the District increase training in this area, and design an additional control to try and detect these instances. Mr. Medina explained this was a problem for the District about 4 or 5 years ago. There was improvement in response to new procedures and increased training, but it appears as though staff may have regressed and that this could become a problem again if not corrected soon. The issue of staff entering into contracts without approval also raises another concern related to Other Agreements. Mr. Medina spoke about procedures require that all other agreements be approved by Legal, but there is no central repository of the approved contracts. Mr. Medina explained as a result, there is no way to know how many other agreements are out there, or what type of risks and liabilities the District is now subject to as a result of these agreements. Mr. Medina explained the recommendation is to have a central repository to identify and monitor all Other Agreements.

Director Blanford asked would this recommendation solve the problem with our teacher contract. Mr. Medina explained that this audit did not cover that contract.

Mr. Medina spoke about Finding #2 on page 7 relates to Segregation of Duties. The first segregation of duties issues related to staff having access to both the purchasing and receiving function within the SAP system. Operationally these functions are separate, but within the system there is nothing to prevent one person from functioning as both the purchaser and the receiver. Mr. Medina spoke about how they did not note anyone actually serving as both functions but Internal Audit recommend that their system access to be updated to only allow them the ability to perform their own function. Mr. Medina explained the 2nd segregation of duties issues relates to Accounts Payable staff being able to create vendors in the SAP system. We place a lot of importance on vendor creation because once a vendor is in the system it is relatively easy to process a payment to them. Mr. Medina stated they did not note any inappropriate vendors created by accounts payable staff, but Internal Audit recommend that the functions of creating and paying vendors be separate.

Director Blanford asked in the past the District was in trouble for vendors; would this have prevented that. Mr. Medina explained that past issues were more related to paying for services that were never rendered, whereas this issue is more related to preventing fraudulent vendors from ever entering the system in the first place.

Mr. Medina spoke about finding #3 on page 8 involves opportunities for improvement to the Request for Proposal (RFP) process: first it is recommended that anytime the scope of an RFP changes after it has been advertised, the District implement controls to ensure that the scope changes are re-advertised and communicated to any potential vendors. Then secondly Mr. Medina is recommending that the District document why it is choosing to use one form of procurement over another, and that it create an end to end checklist to document its compliance with all the RFP requirements. Third, it is recommended that budget capacity be verified before the District invests significant resources into the RFP process, and lastly, it is recommended that staff involved in evaluating the proposals certify that they do not have any conflicts of interest with any of the potential vendors. Mr. Medina also acknowledged that the District has already created a checklist and is already in the process of implementing these recommendations.

Director Peters asked was there a specific item they were looking for. Mr. Medina explained that this item was more of an opportunity for improvement as opposed to an issue of repeated non-compliance; however, he indicated that they noted one RFP where scope changes were only communicated to vendors who had already submitted their proposals.

Mr. Medina spoke about finding #4 on page 10 relating to Open Purchase Orders (PO): Open PO are established with vendors that the District uses frequently for small dollar-value purchases. Mr. Medina noted that even though Open POs are set up with an established value, they are routinely established at a low dollar value even if the District expects that the total purchases will exceed that amount. Mr. Medina explained when an invoice is received that will cause an Open PO to exceed its value, accounts payable will still pay against an Open PO as long as there are budget funds available and the responsible department says it's ok. As a result, the payments against an Open PO will often exceed its established value.

Mr. Medina also noted that there are no procedures in place to increase the value of an Open PO, or to ensure that its purchases are appropriate and that the Open PO is being used as intended. We place a lot of importance on Open PO also because unlike a single PO, they do not limit a purchase to specific items. Open PO's, although convenient, are inherently more risky because purchases are approved after the fact rather than in advance. Mr. Medina spoke about the recommendations including: increasing the value of Open PO's before applying any payments that would exceed their established value; review the purchases already made to ensure that the Open PO is being used as intended prior to increasing the value; setting the original value of the Open PO at the actual dollar value that is expected to be expended and following the District competitive procurement requirements based on the total value of the Open PO.

Directors Peters noted board oversight and approval was not mutually exclusive.

Mr. Medina spoke about finding # 5 on page 12 relates to contract approvals and the aggregating of payments to a single vendor. Internal Audit is not citing any noncompliance, but merely making a recommendation that the District establish a threshold for payments to a single vendor for similar services, that if exceeded, would require Board approval. Currently only contracts exceeding \$250,000 for a single action are required to be approved by the Board.

However, it is possible that a single vendor could receive a significant amount of contracts from one vendor without ever having to go before the Board. In addition, there is a risk that staff could intentionally split larger contracts into several smaller ones in order to avoid going to Board.

Mr. Best spoke about how tracking that from a budget standpoint, this was a past practice for the District. Because they are all individual budget codes they are not tracked together.

Director Peters asked if a recommendation would ever come to the Board for multiple vendors providing the same services. Mr. Medina explained this would not typically come to the Board, it is normally per vendor.

Director Blanford asked if as the number of contracts goes up is the energy put into the contract work to ensure the contracts that come to the Board are consistent and have the same high level. Ms. Berge spoke about how this may be an opportunity of putting some things on a consent agenda to bring balance to that.

Director Peters stated she did not want to change the amount threshold.

Mr. Medina reviewed the finding #6 on page 13 is an opportunity to limit our fraud liability related to P-cards by adopting the use of Merchant Credit Codes. Mr. Medina spoke about by adopting Merchant Credit Codes the District could prohibit its procurement cards from being used on prohibited items such as travel, fast food, and gambling.

Mr. Medina spoke about finding #7 on page 14 relates to the creation of new vendors in the SAP system. As mentioned previously when discussing finding #2 related to segregation of duties, he places a lot of importance on creating new vendors in the system because once a vendor is created it's easier to process a payment to them. Mr. Medina explained as a result, it's important to insure that we have strong controls to prevent the creation of a fraudulent vendor. In this area Internal Audit is recommending that: any newly created vendors are reviewed and approved by management the vendor database include all contact information for each vendor and the District explore integrating the vendor and payroll databases so that employee vendors are created directly from the SAP system. Mr. Medina explained management has included a response concurring with the findings and will develop a detailed Corrective Action Plan.

Mr. Medina spoke about the Lowell Elementary School audit. Mr. Medina explained Lowell was selected for an audit because our data analytics showed a significant drop in deposit activity. Internal Audit found significant issues related to cash handling and field trips, including a loss of funds.

Mr. Medina spoke about Finding #1 on page 4 outlines the noncompliance noted with Cash Handling & Receipting. This is the 13th consecutive school audit we've conducted that has included a finding related to cash handling and receipting. The difference in this situation; however, is that the school was not preparing any receipts, and only prepared a few deposits over the last 3 years. Mr. Medina explained other schools we audited would prepare some receipts and deposits, but may not have followed procedures correctly. Mr. Medina explained that Lowell School didn't prepare receipts at all. A surprise cash count was conducted on 1/25/16 and discovered nearly \$13,000 in the school safe. The funds consisted primarily of field trip payments that dated back to the 2012/2013 school year. When they went to reconcile the school's deposits and the field trip payments located in the safe, we could not locate any funds from the school's 5th grade overnight fieldtrip to Island Wood Camp that occurred in December 2014.

Mr. Medina spoke about finding #2 Loss Funds. Mr. Medina explained that the camp occurred and we know that families made payments to cover the cost of the camp, but we do not know the exact amount of the loss. Based on a spreadsheet prepared by the 5th grade teacher, we estimate the loss to be \$3,870. Mr. Medina contacted families to try and determine the exact amount of the loss, and to try and determine if a theft occurred, but the results were inconclusive. Mr. Medina explained even though the school only had one person responsible for cash handling, we cannot determine who was responsible for the loss. We also cannot determine if a theft occurred or if the funds were simply lost. Mr. Medina noted the report includes recommendations for following the required procedures related to cash handling and receipting, and to notify internal audit if any new information related to the loss of funds is revealed.

Mr. Medina spoke about how they also recommend that the district implement additional data analytics to monitor school deposit activity. Mr. Medina explained such analysis could have detected this issue much sooner.

Director Blanford asked about the three principals that were in place during this time. The primary way they would know someone took money for their own personal use is by keeping the cash and ditching the checks. Mr. Medina spoke about how they noticed errors early in the audit, and did a second surprise cash count.

Director Blanford asked if principals and executives have been met with and spoken with on proper procedures. Mr. Medina spoke about conversations that have been had and that one employee has been placed on administrative leave.

Director Peters spoke about being pleased with the recommendation to have additional training. Mr. Medina summarized the remaining findings 3 to 5. Mr. Medina pointed to the responses given from management.

Special Attention Items

1. Performance Audit Status I-900 (Boulmetis)
Audit Response Manager Annette Boulmetis spoke about the audit being for the construction audit program. It was from 2012 and was regarding \$38M for seven projects. The I-900 instructs the audit office to find any cost savings. Any cost savings have been brought forward. Director Blanford asked why the I-900 come up again. Ms. Boulmetis explained this is required to be recorded in minutes. Ms. Boulmetis recommends closing this report.

Audit Response Updates

1. Response Management (Nielsen/Boulmetis)
Audit Response Manager Annette Boulmetis spoke about spoke about the wrap up of the Alternative Learning Experience (ALE) audit and Nathan Hale radio broadcasting. Peters and Sullivan did the audit and has concluded the audit and we will be receiving the recommendation soon. Ms. Boulmetis spoke about working with DoTS for enrollment review.

Director Peters requested a handout be created.

2. Teaching & Learning (Tolley)
Associate Superintendent for Teaching & Learning Michael Tolley spoke about teaching and learning having 12 open items. Manager of Professional Development Instructional Services Laura VanDerPloeg summarized the purpose of clock hours. Ms. VanDerPloeg spoke about currently working on an electronic process for teachers to pay for clock hours. Testing is

currently ongoing for this electronic process and they will have a start date shortly. Director of Special Education Michaela Clancy has two audit items; for one they have a three-year history module for IEPs and it is in final testing. The paperless process as of this week will be moving forward and they have worked with our records department.

Director Peters asked if NOVA isn't an ALE school, but was previously. Mr. Tolley both NOVA and Middle College are in the process of being designated as ALE schools by the School Board.

Director Blanford asked if we owe the state \$388K. Ms. Berge spoke about how the district will have another chance and reduce the amount owed.

Mr. Tolley spoke about the three open items for cash handling for Olympic View. A corrective action plan was submitted. Mr. Tolley spoke to the remaining items which are for Franklin High School. Executive Director of Schools P-12 Sarah Pritchett spoke about missing receipts in ASB. Funds will be replenished and they can begin to have a correct ASB account.

3. Capital Projects (Herndon/Jessee)

Director of Capital Projects & Planning Richard Best spoke about the one open item that is concerning liquidated damages. Mr. Best spoke about damages they are looking at are excessive and it does need to be left open. Prior liquidated damages were too low and now they are being estimated at a higher amount.

Director Blanford asked if this is a management function. Mr. Best explained it is a management function and he needs to work with staff on how to better manage the liquidated damages cost estimates.

4. Human Resources (Perlstein)

Director of Human Resources Data and Systems Michel Perlstein summarized efforts being made for the data privacy policy. Ms. Perlstein spoke about meeting with internal stakeholders on a checklist and controls. Documents are being sent out to confirm identification which will be in the employee file to protect the employee.

5. Business & Finance (Nielsen)

Assistant Superintendent for Business and Finance JoLynn Berge spoke about meeting with DoTS for the Point of Sales (PoS) to move forward. Ms. Berge spoke about a time and effort certification plan being in place. Ms. Boulmetis spoke about item 17 for development of internal control. Ms. Boulmetis summarized why this item has been placed on the audit tracking sheet. Ms. Boulmetis explained that at a budget quarterly Mr. Medina clarified that the finding was related to Administrative Assistants approving purchases in B2B, rather than the budget owners. The recommendation was to implement additional controls to ensure that budget managers have oversight of what is going through the department. Purchasing Manager Craig Murphy spoke about the disparity of state and federal thresholds. Mr. Murphy explained the need to update the website with DoTS.

Grants Director Michael Stone explained number 20 was placed on the list due to a grant from Rainier Beach. And a new process has been put into place for the school to go back to the contract and see what the scope of work is actually for. Mr. Stone explained two years ago the rank order for Title I didn't compare with our data. It wasn't enough to be a finding but it was an exit item. Director Blanford asked what the ranking was determined by. Mr. Stone explained it was based on free and reduced lunch.

Director Peters requested it be noted in the minutes Director Harris is at a graduation this evening.

Adjourn

The meeting was adjourned at 6:29pm.

DRAFT



School Board Briefing/Proposed Action Report

Informational (no action required by Board) **Action Report** (Board will be required to take action)

DATE: August 24, 2016
FROM: Dr. Larry Nyland, Superintendent
LEAD STAFF: Andrew Medina, Ethics Officer; ajmedina@seattleschools.org

I. TITLE

Amending Board Policy No. 5251, Ethics

For Introduction: September 21, 2016

For Action: October 12, 2016

II. WHY BOARD ACTION IS NECESSARY

The School Board is the governing body with the authority to adopt, amend, and repeal policies for the District. Board action is therefore required.

III. FISCAL IMPACT/REVENUE SOURCE

There is no fiscal impact for this policy revision.

Expenditure: One-time Annual Other Source

IV. POLICY IMPLICATION

If approved, this motion would amend Policy No. 5251, Ethics, as reflected in the attached policy revision.

V. RECOMMENDED MOTION

I move that the School Board amend Policy No. 5251, Ethics, as attached to the Board Action Report.

VI. BOARD COMMITTEE RECOMMENDATION

This motion was discussed at the Audit & Finance Committee meeting on August 18, 2016, and September 13, 2016. On September 13, 2016, the Committee reviewed the motion and _____

VII. BACKGROUND INFORMATION

The current Ethics Policy does not require an annual report from the Ethics Officer. Previously, when the City of Seattle Ethics and Elections Commission served as the District’s Ethics Officer, an annual report was required by the contract between the District and the City. When the District terminated the contract with the City, the annual reporting requirement was eliminated.

The proposed amendments would ensure that the School Board receives an annual ethics report, regardless of who is serving as the District’s Ethics Officer.

VIII. STATEMENT OF ISSUE

Whether or not to amend Policy No. 5251, Ethics.

IX. ALTERNATIVES

Do not amend Policy No. 5251, Ethics. This is not recommended as an annual reporting requirement will ensure that the Board receives periodic updates on the ethical culture of the District.

X. RESEARCH AND DATA SOURCES / BENCHMARKS

N/A

XI. TIMELINE FOR IMPLEMENTATION / COMMUNITY ENGAGEMENT

Upon approval of this motion, Policy No. 5251, Ethics will be amended and the new version of the policy will be posted online.

XII. ATTACHMENTS

- Policy No. 5251 – clean (for approval)
- Policy No. 5251 – redline (for reference)

	<p>ETHICS</p>	<p>Policy No. 5251</p> <p>[Date]</p> <p>Page 1 of 8</p>
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1. Purpose

District officers and employees will demonstrate the values of **integrity** in the performance of the District’s business, **accountability** to the law and to the people we serve, **stewardship** of the District’s resources, and **independence** in the performance of our jobs. District officers and employees have been entrusted with a noble and important task, educating our community’s children, and should strive to live up to the highest ethical standards.

This policy establishes ethical standards of conduct for all District officers and employees, whether elected or appointed, paid or unpaid; and sets forth conduct that is incompatible with such standards. Violations of sections 4 through 9 of this policy subject employees to discipline, and officers to censure by the Board.

2. Summary

- a. **Conflicts of Interest.** All District officers and employees must **disqualify** themselves from participating in District actions in which they have a conflict of interest, and **disclose** when it could appear that they have a conflict of interest.
- b. **Use of Position.** District employees and officers may not misuse their positions or District property for private gain.
- c. **Gifts and Gratuities.** District employees and officers generally must not accept gifts or gratuities from people who may have an interest in District actions.
- d. **Confidential Information.** District officers and employees may not use confidential information for private gain.
- e. **Interest in Contracts.** District officers and employees may not have a financial interest in contracts made by those in their chain of command, and must disclose a financial interest in any District contracts.
- f. **Retaliation is Prohibited.** Retaliation or threats of retaliation, both direct and indirect, for communicating with the Ethics Officer are prohibited. Any employee found to have engaged in any such conduct shall be subject to disciplinary action.

3. Definitions

“District action” means (i) a decision, determination, finding, ruling, order, grant, payment, award, license, contract, transaction, sanction, approval or denial, or

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other similar action, or (ii) any proceeding, application, submission, request for a ruling or other determination, contract, claim, case, or other such matter that the District employee believes, or has reason to believe, is or will be the subject of District action; or is one to which the District is, or will be a party; or is one in which the District has a direct and substantial interest.

“District employee” means the Superintendent or any individual appointed by the Superintendent or his or her designee, who serves under the supervision and authority of the District and the Internal Auditor and staff.

“District officer” means every School Board member.

“Domestic partners” are any two people who (i) are both eighteen years of age or older; (ii) are not married to any persons; (iii) are not related by blood to one another in a manner that would bar their marriage in Washington State; (iv) have a relationship of mutual support, caring, and commitment; and (v) do not have any other domestic partner.

“Family member” means spouse or domestic partner, child, step-child, parent, step-parent, parent-in-law, grandparent, grandchild, sibling, aunt, uncle, niece, nephew, son- or daughter-in law, brother- or sister-in law or first cousin.

“Gift or gratuity” means anything of value, but does not include the following items:

- a. Anything of value that is received as District property and used for District purposes (such as textbooks and classroom supplies);
- b. Payment of enrollment and course fees and reasonable travel expenses related to seminars and educational programs sponsored by a bona fide nonprofit professional, educational, or trade association, or charitable institution;
- c. Discounts available to an individual as a member of an employee group, occupation or similar broad-based group;
- d. A plaque, trophy, desk item, wall memento, or similar item given in recognition of performance, merit, or accomplishment;
- e. Awards, prizes, scholarships, or other items provided in recognition of academic or scientific achievement;
- f. Reimbursement to the District for enrollment and course fees and reasonable travel expenses incurred by the District in connection with an Employee or Officer’s speech, presentation, or appearance made in an official capacity; provided that the reimbursement is memorialized in a public record.

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- g. Campaign contributions which are solicited or received and reported in accordance with applicable law.

“Participate” means to personally and substantially consider, investigate, advise, recommend, approve, disapprove, decide, or take other similar action.

“Person” means any individual, partnership, corporation, association, firm, institution, or other entity, whether or not operated for profit.

“Reasonable travel expenses” are those expenses that either (i) do not exceed the District-established per diem for travel, or (ii) could be paid for with public funds.

4. Conflicts of Interest.

*All District officers and employees must **disqualify** themselves from participating in District actions in which they have a conflict of interest, and **disclose** when it could appear that they have a conflict of interest.*

A District officer or employee may not:

- a. Participate in a District action in which any of the following has a financial interest:
 - i. the District officer or employee;
 - ii. a family member of the District officer or employee;
 - iii. an individual residing with the District officer or employee;
 - iv. a person the District officer or employee serves as an officer, director, trustee, partner or employee;
 - v. a person with which the District officer or employee is seeking or has an arrangement concerning future employment.
- b. Participate in a District action in which a person that employed the District officer or employee in the preceding 12 months, or retained the District officer or employee or his or her firm or partnership in the preceding 12 months, has a financial interest; provided, however, that the Ethics Officer shall waive this section when: (i) the Superintendent or his or her designee makes a written determination that there is a compelling need for the District officer or employee to participate in a District action involving a prior employer or client, and submits that determination with a written plan showing how he or she will safeguard the District’s interests, and (ii) the Ethics Officer determines that the plan is satisfactory.
- c. Participate in a District action when it could appear to a reasonable

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person, having knowledge of the relevant circumstances, that the District officer or employee's judgment is impaired because of either (i) a personal or business relationship not covered under subsection a or b above, or (ii) a transaction or activity engaged in by the District officer or employee. This section c shall not apply if the employee or officer has, before participating, fully disclosed in writing the circumstances to the Superintendent and the Ethics Officer. The Superintendent, upon receiving a written disclosure from a District employee, may disqualify the employee from participating in the action.

This section shall not apply if the financial interest is shared with more than ten percent of the District's student population or workforce, or if the financial interest exists solely because of the District officer or employee's ownership of less than one percent of the outstanding shares of a publicly traded corporation.

A District officer or employee who recuses himself or herself from participating in a district action in accordance with this section should notify the Ethics Officer in writing of his or her decision to do so as soon as possible.

5. Misuse of Position

To promote public confidence, District employees and officers may not misuse their positions or District property for private gain.

A District officer or employee may not:

- a. Use or attempt to use his or her official position for a purpose that is, or would to a reasonable person appear to be, primarily for the private benefit of the District officer or employee or any other person, rather than primarily for the benefit of the District;
- b. Use or attempt to use, or permit the use of any District funds, property, equipment, or personnel, for a purpose which is, or to a reasonable person would appear to be, for other than a District purpose. However, employees may make limited use of District equipment or facilities for personal purposes if there is a negligible cost to the District and if the use does not interfere with the employee's official duties or with another employee's performance of official duties. Examples of acceptable personal uses are (i) limited use of telephones for personal calls; (ii) limited use of computers; (iii) limited use of e-mail; and (iv) limited use of copiers. District employees may not use District vehicles, tools or similar equipment for personal use.
- c. Except in the course of official duties, assist any person in any District

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- action in which that person has a financial interest. This subsection c shall not apply to any District officer or employee appearing on his or her own behalf in any District action, or on behalf of any business entity solely owned by the District officer or employee, if not otherwise prohibited by this or any other District policy;
- d. Influence or attempt to influence a District decision to contract with, or the conduct of District business with, a person in which any of the following has a financial interest:
 - i. the District officer or employee;
 - ii. a family member of the District officer or employee;
 - iii. an individual residing with the District officer or employee;
 - iv. a person the District officer or employee serves as an officer, director, trustee, partner or employee;
 - v. a person with which the District officer or employee is seeking or has an arrangement concerning future employment.
 - e. Receive compensation from any person seeking to or providing goods or services to the District, without the written consent of the Superintendent or his or her designee, if the District employee participates in the acquisition of such goods and services by the District.
 - f. Sell goods or services to a student or their family, when the student is currently in the employee's class or under their direction or control for a district sponsored activity, unless written approval is obtained from the Superintendent or his or her designee. Services include, but are not limited to, private tutoring and private academic, music, band, art, and athletic instruction. This paragraph does not apply to before or after school enrichment activities or other programs made available to all students in the building, when those activities are approved by the building principal.
 - g. Sell instructional or training materials and/or equipment developed on District time or District property without the written consent of the Superintendent or her designee.

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6. Gifts and Gratuities

To promote public confidence, District employees and officers generally must not accept gifts or gratuities from people who may have an interest in District actions.

A District employee or officer may not solicit or receive any gift or gratuity from any person if the intent is, or would to a reasonable person appear to be, to seek or obtain special consideration or influence in any District action in which the employee or officer participates.

The following are examples of situations in which a reasonable person would not normally conclude a gift was given or received with the intent to influence an employee's or officer's actions:

- a. a gift from a member of an employee's school community or an individual coworker valued at no more than \$50, or no more than \$100 in aggregate in gifts from any one person in any one school year.
- b. a collective gift from an employee's school community or coworkers given in recognition of infrequently occurring occasions of personal significance such as marriage, illness, the birth or adoption of a child, retirement or transfer away from a school, or the end of the school year, provided that no individual employee, or student, or his or her family may contribute more than \$50 to any individual gift.

It shall not be a violation of this section for a District employee who participates in the District's acquisition of goods or services to accept from a person or firm seeking to or providing such goods or services the following:

- a. Advertising or promotional items of nominal value.
- b. Informational material, publications, or subscriptions related to the recipient's performance of official duties.
- c. Food and beverages consumed at hosted receptions or hosted meals where attendance is related to the recipient's performance of official duties.

7. Disclosure of Confidential Information

District officers and employees may not use confidential information for private gain.

A District officer or employee may not disclose or use any confidential information gained by reason of his or her official position, including but not limited to student records, personal employee information, property appraisals,

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and business information the disclosure of which would put the District at a competitive disadvantage, for other than a District purpose.

“Confidential Information” means (i) specific information, rather than generalized knowledge, that is not available to a person who files a public records request, or (ii) information made confidential by law.

8. Interest in Contracts

District officers and employees may not have a financial interest in contracts made by those in their chain of command, and must disclose a financial interest in any District contracts.

A District officer or employee shall disclose any financial interest, direct or indirect, held personally or through a family member, in any contract to which the District may be a party, to the Superintendent or his or her designee prior to the formation of the contract; provided, that this paragraph shall not apply to any contract awarded through the public bid process in accordance with applicable law.

In addition to the requirements of the foregoing paragraph, a District officer or employee may not hold or acquire a financial or beneficial interest, direct or indirect, personally or through a family member, in any contract which, in whole or in part, is made by, through, or under the supervision of the District officer or employee, or which is made by or through a person supervised, directly or indirectly, by the District officer or employee; or accept, directly or indirectly, any compensation, gratuity, or reward in connection with such contract from any other person or entity beneficially interested in the contract.

9. Retaliation Prohibited

In addition to the protections for whistleblowers under the district’s whistleblower policy, retaliation or threats of retaliation, both direct and indirect, for communicating with the Ethics Officer, with any member of the Ethics Officer’s staff, or with anyone retained by the Ethics Officer, are prohibited. Any employee found to have engaged in any such conduct shall be subject to disciplinary action.

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10. Ethics Officer’s Responsibilities

The Superintendent shall designate a District Ethics Officer, who shall be responsible for administering this policy. The Ethics Officer may appoint internal or outside investigators and/or attorneys to assist in performing his or her responsibilities.

11. Complaints and Advisory Opinions

Any District employee or a person in a transaction involving the District may request an advisory opinion from the Ethics Officer. All requests for advisory opinions must be submitted in writing to the Ethics Officer. The Ethics Officer shall make a good-faith effort to respond in writing to all requests for an advisory opinion in a timely fashion or within thirty days after receiving the request.

Any person may file a complaint with the Ethics Officer alleging violations of paragraphs 4 through 9 of this Policy. The Ethics Officer (or his or her appointee) shall conduct an investigation when there is reason to believe that a violation of paragraphs 4 through 9 may have occurred. The Ethics Officer shall prepare a report of his or her factual findings and conclusions at the close of an investigation, and shall deliver that report to the Superintendent or his or her designee, with a copy to the complainant.

12. Annual Report

The Ethics Officer shall submit an annual report to the School Board within 90 days of the fiscal year end summarizing the number and type of contacts received by the Ethics Officer, the percentage of contacts submitted anonymously, and the status of the ethics training program.

Adopted: January 2012

Revised: [Date]

Cross Reference: Policy No. 5250, Superintendent Procedure 5250SP

Related Superintendent Procedure:

Previous Policies: F09.00; F09.01; F11.00; F11.01

Legal References: RCW 42.23

Management Resources:

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1. Purpose

District officers and employees will demonstrate the values of **integrity** in the performance of the District’s business, **accountability** to the law and to the people we serve, **stewardship** of the District’s resources, and **independence** in the performance of our jobs. District officers and employees have been entrusted with a noble and important task, educating our community’s children, and should strive to live up to the highest ethical standards.

This policy establishes ethical standards of conduct for all District officers and employees, whether elected or appointed, paid or unpaid; and sets forth conduct that is incompatible with such standards. Violations of sections 4 through 9 of this policy subject employees to discipline, and officers to censure by the Board.

2. Summary

- a. **Conflicts of Interest.** All District officers and employees must **disqualify** themselves from participating in District actions in which they have a conflict of interest, and **disclose** when it could appear that they have a conflict of interest.
- b. **Use of Position.** District employees and officers may not misuse their positions or District property for private gain.
- c. **Gifts and Gratuities.** District employees and officers generally must not accept gifts or gratuities from people who may have an interest in District actions.
- d. **Confidential Information.** District officers and employees may not use confidential information for private gain.
- e. **Interest in Contracts.** District officers and employees may not have a financial interest in contracts made by those in their chain of command, and must disclose a financial interest in any District contracts.
- f. **Retaliation is Prohibited.** Retaliation or threats of retaliation, both direct and indirect, for communicating with the Ethics Officer are prohibited. Any employee found to have engaged in any such conduct shall be subject to disciplinary action.

3. Definitions

“District action” means (i) a decision, determination, finding, ruling, order, grant, payment, award, license, contract, transaction, sanction, approval or denial, or

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other similar action, or (ii) any proceeding, application, submission, request for a ruling or other determination, contract, claim, case, or other such matter that the District employee believes, or has reason to believe, is or will be the subject of District action; or is one to which the District is, or will be a party; or is one in which the District has a direct and substantial interest.

“District employee” means the Superintendent or any individual appointed by the Superintendent or his or her designee, who serves under the supervision and authority of the District and the Internal Auditor and staff.

“District officer” means every School Board member.

“Domestic partners” are any two people who (i) are both eighteen years of age or older; (ii) are not married to any persons; (iii) are not related by blood to one another in a manner that would bar their marriage in Washington State; (iv) have a relationship of mutual support, caring, and commitment; and (v) do not have any other domestic partner.

“Family member” means spouse or domestic partner, child, step-child, parent, step-parent, parent-in-law, grandparent, grandchild, sibling, aunt, uncle, niece, nephew, son- or daughter-in law, brother- or sister-in law or first cousin.

“Gift or gratuity” means anything of value, but does not include the following items:

- a. Anything of value that is received as District property and used for District purposes (such as textbooks and classroom supplies);
- b. Payment of enrollment and course fees and reasonable travel expenses related to seminars and educational programs sponsored by a bona fide nonprofit professional, educational, or trade association, or charitable institution;
- c. Discounts available to an individual as a member of an employee group, occupation or similar broad-based group;
- d. A plaque, trophy, desk item, wall memento, or similar item given in recognition of performance, merit, or accomplishment;
- e. Awards, prizes, scholarships, or other items provided in recognition of academic or scientific achievement;
- f. Reimbursement to the District for enrollment and course fees and reasonable travel expenses incurred by the District in connection with an Employee or Officer’s speech, presentation, or appearance made in an official capacity; provided that the reimbursement is memorialized in a public record.

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- g. Campaign contributions which are solicited or received and reported in accordance with applicable law.

“Participate” means to personally and substantially consider, investigate, advise, recommend, approve, disapprove, decide, or take other similar action.

“Person” means any individual, partnership, corporation, association, firm, institution, or other entity, whether or not operated for profit.

“Reasonable travel expenses” are those expenses that either (i) do not exceed the District-established per diem for travel, or (ii) could be paid for with public funds.

4. Conflicts of Interest.

*All District officers and employees must **disqualify** themselves from participating in District actions in which they have a conflict of interest, and **disclose** when it could appear that they have a conflict of interest.*

A District officer or employee may not:

- a. Participate in a District action in which any of the following has a financial interest:
 - i. the District officer or employee;
 - ii. a family member of the District officer or employee;
 - iii. an individual residing with the District officer or employee;
 - iv. a person the District officer or employee serves as an officer, director, trustee, partner or employee;
 - v. a person with which the District officer or employee is seeking or has an arrangement concerning future employment.
- b. Participate in a District action in which a person that employed the District officer or employee in the preceding 12 months, or retained the District officer or employee or his or her firm or partnership in the preceding 12 months, has a financial interest; provided, however, that the Ethics Officer shall waive this section when: (i) the Superintendent or his or her designee makes a written determination that there is a compelling need for the District officer or employee to participate in a District action involving a prior employer or client, and submits that determination with a written plan showing how he or she will safeguard the District’s interests, and (ii) the Ethics Officer determines that the plan is satisfactory.
- c. Participate in a District action when it could appear to a reasonable

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person, having knowledge of the relevant circumstances, that the District officer or employee's judgment is impaired because of either (i) a personal or business relationship not covered under subsection a or b above, or (ii) a transaction or activity engaged in by the District officer or employee. This section c shall not apply if the employee or officer has, before participating, fully disclosed in writing the circumstances to the Superintendent and the Ethics Officer. The Superintendent, upon receiving a written disclosure from a District employee, may disqualify the employee from participating in the action.

This section shall not apply if the financial interest is shared with more than ten percent of the District's student population or workforce, or if the financial interest exists solely because of the District officer or employee's ownership of less than one percent of the outstanding shares of a publicly traded corporation.

A District officer or employee who recuses himself or herself from participating in a district action in accordance with this section should notify the Ethics Officer in writing of his or her decision to do so as soon as possible.

5. Misuse of Position

To promote public confidence, District employees and officers may not misuse their positions or District property for private gain.

A District officer or employee may not:

- a. Use or attempt to use his or her official position for a purpose that is, or would to a reasonable person appear to be, primarily for the private benefit of the District officer or employee or any other person, rather than primarily for the benefit of the District;
- b. Use or attempt to use, or permit the use of any District funds, property, equipment, or personnel, for a purpose which is, or to a reasonable person would appear to be, for other than a District purpose. However, employees may make limited use of District equipment or facilities for personal purposes if there is a negligible cost to the District and if the use does not interfere with the employee's official duties or with another employee's performance of official duties. Examples of acceptable personal uses are (i) limited use of telephones for personal calls; (ii) limited use of computers; (iii) limited use of e-mail; and (iv) limited use of copiers. District employees may not use District vehicles, tools or similar equipment for personal use.
- c. Except in the course of official duties, assist any person in any District



ETHICS

Policy No. 5251

~~January 4, 2012~~ [Date]

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action in which that person has a financial interest. This subsection c shall not apply to any District officer or employee appearing on his or her own behalf in any District action, or on behalf of any business entity solely owned by the District officer or employee, if not otherwise prohibited by this or any other District policy;

- d. Influence or attempt to influence a District decision to contract with, or the conduct of District business with, a person in which any of the following has a financial interest:
 - i. the District officer or employee;
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 - iv. a person the District officer or employee serves as an officer, director, trustee, partner or employee;
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Adopted: January 2012

Revised: [\[Date\]](#)

Cross Reference: [Policy No. 5250, Superintendent Procedure 5250SP](#)

Related Superintendent Procedure:

Previous Policies: F09.00; F09.01; F11.00; F11.01

Legal References: [RCW 42.23](#)

Management Resources:



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

Internal Audit Report

Central Administration Cash Handling and Deposits

DRAFT

Issue Date: September 13, 2016



Internal Audit Report Central Administration Cash Handling and Deposits

Executive Summary

Background

This audit was conducted by Gary Nystul, an independent contractor. When a member of the Internal Audit Department resigned in March, Gary was contracted with to assist with the annual internal audit plan. This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on October 6, 2015. This area was initially selected for audit to evaluate the process for transporting funds from the individual schools to the bank, and the process for posting deposits to the centralized accounting system.

The independent report with additional background information, observations, recommendations, and a management response is on the following pages.

Andrew Medina

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

DRAFT

GARY NYSTUL
19700 Jensen Way NE
Poulsbo, WA 98370

August 29, 2016

Andrew Medina CPA CFE
Director of Internal Audit and Ethics Officer
Seattle Public Schools
2445 3rd Avenue South
Seattle, WA 98134

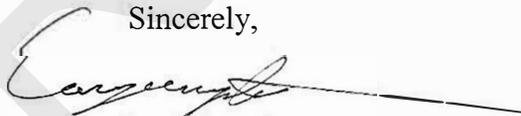
Dear Mr. Medina:

Attached is my report: Audit of the District's Central Administration Cash Handling and Deposits. This work was performed as an independent contractor under a District personal services contract.

I appreciate the assistance provided by the many staff members of the District and the Administrative Secretaries and Fiscal Specialists in the schools visited. The assistance of Elma Allen, Cash Office Coordinator, and Erma Meeks-Hill, ASB Trust Analyst was also greatly appreciated.

Thank you for the opportunity to provide this professional service to you. Please contact me for any additional information.

Sincerely,



Gary Nystul

SEATTLE PUBLIC SCHOOLS AUDIT OF THE DISTRICT'S CENTRAL ADMINISTRATION CASH HANDLING AND DEPOSITS

INTRODUCTION

The purpose of this audit was to review the process for depositing funds received by the schools with the bank. Schools receive money from students, parents and others for various purposes. Money received for school dances, prom, yearbook, athletic events, and etc. are to be deposited in the Association Student Body Fund (ASB). Money received for book fines, material fees for art and similar classes, is deposited into the General Fund. Nutrition Services money is also deposited into the General Fund.

REVIEW OBJECTIVES

The objectives established in the contract were:

- Examine risks associated with the safety and security of transporting school funds to the commercial bank
- Timeliness and accuracy of posting deposits to the District SAP system
- Internal controls over centralized cash receipting and deposits

SUMMARY OF FINDINGS

- The process of transporting money from the schools to the district office has good internal control features
- There are some issues relating to reconciling the deposits
- There is an issue for school staff reconciling money due to the time required to post receipts to the school accounting system
- The lack of current software causes issues in the schools for accounting of these funds

SCOPE AND METHODOLOGY

Financial data from the start of the school year (September 2015) through the time of the filed work (May 2016) was considered. One day was spent riding one of the three mail routes to observe the process and procedures of receiving the deposit bags and transporting them to the mail room. Site visits were made to 18 schools to inquire of the Administrative Secretary or the Fiscal Specialist, about their procedures and documents used. Inquiry was also made of departments in the district office who receive money.

BACKGROUND

From the start of the school year to April of this year the district has received over \$3 million from the schools for ASB, over \$3 million in Self Help General Fund, and over \$3 million for nutrition services. Daily deposit amounts from individual schools for ASB ranged from \$3.00 to \$97,860 with an average of \$1,363 and a median of \$460. Self Help General Fund deposits ranged from \$3.00 to \$115,391.

Depending on the school, either the Administrative Secretary or the Fiscal Specialist is responsible for the preparation of the receipts and deposits, and keeping track of the various accounts. The schools write manual receipts for all money. The receipt books are pre-numbered and have three copies of each receipt.

Classroom teachers often collect for events such as field trips. They follow standard procedure and turn in each day's collections to the Administrative Secretary or the Fiscal Specialist. Some schools have a student store that also receives money. School athletic events and drama productions may also have revenue. The Admin Secretary/Fiscal Specialist issues a receipt to the individual giving them the money and prepares the daily deposit.

Deposits are to be made daily to comply with state law and are recorded on a deposit slip which is pre-printed with the school/cost center. The bank transmits the deposit data to the district accounting office. Nutrition Services deposits are automated for posting to the accounting system. Other deposits are manually posted.

The school nutrition program uses a point of sale system. At each school money received for each student's meal is recorded in an on-line system. At the end of the day the school nutrition supervisor prepares a Daily Summary Report. The report totals checks and cash received during the day. The school nutrition staff prepares a bank deposit slip and places it along with the day's receipts into the deposit bag. The bag is then securely transported by the driver to the district vault each day. The daily summary report is kept at the school. An inquiry of the process used for the point of sale was not made.

OBSERVATIONS AND RECOMMENDATIONS

1. The process of transporting money from the schools to the district office is secure

Each school has several locking deposit bags which are individually numbered. Keys for each bag are kept by the school. The delivery drivers transporting the funds do not have access to the keys required to open the bank bags. There is one set of bags for nutrition services and one for school activities. School staff enters the bag number(s) on the driver's log and signs the form when the driver accepts the bag. Staff was observed ensuring the bags were locked when given to the driver. The driver deposits the bank bags into a drop safe inside the delivery vehicle. The drop safe is bolted to the floor and

inaccessible to the driver. The number of bags collected and transferred to the vault is reconciled by the driver and the central office staff and recorded in a log. Risk of loss of a deposit between a school and the bank is minimal.

There are no recommendations for this procedure.

2. There are some issues relating to the deposits

Discussion with staff disclosed some issues with the bank deposits. Some instances were reported when the school has written over the micr coding on the deposit slip. The armored company cash count staff is not able to determine which school code to record the deposit and the district has to “guess” which school it is from in order to post to SAP.

Some instances were reported where deposits did not contain all of the checks or currency listed on the deposit slip. One reason given by district staff for this issue was lack of training. Another reason given was that there does not appear to be communication from the district staff to the schools to note these issues and assist in correcting.

RECOMMENDATION

- The district should consider a training requirement for school staff handling money.
- The district should consider a procedure for communicating problems with deposits to school staff.

3. Issues due to the time required to post receipts to the school accounting system

Deposits are made daily to the bank. Two separate procedures are used to record these deposits in the SAP accounting system.

An *ASB Daily Summary of Cash Deposit* form is prepared for ASB money and sent by email to the district office. The ASB Trust Analyst extracts the data from the electronic report and posts to SAP. However, this posting has taken up to 45 days after the deposit. The schools report that this late posting has occurred most of the year.

The General Fund deposit is a paper General Fund Deposit Summary form prepared and sent via district mail to the district office. Photo copies of checks over \$99 are to be included along with a copy of the deposit slip. The Cash Office Coordinator manually posts the data from the deposit form to SAP. The standard procedure of the Cash Office is to have all deposits entered and reconciled by the 10th of the following month.

School staff must be able to reconcile these deposits in a timely manner for good control procedures. The staff at the schools noted that the delay in posting of receipts makes it more difficult to reconcile. Timely reconciling enables the ability to resolve differences.

In addition, the late posting causes delays in using the money since it cannot be spent until it is recorded. For example, one school received a grant for purchasing iPads for the library. However, they report that it took from December 8, 2015 to January 14, 2016 for the deposit to be posted to SAP before they were able to purchase the iPads.

RECOMMENDATION

- District management should review the daily deposit process. A determination should be made if it is reasonable to have two different processes.
- A review of the workload of the individuals responsible for posting daily receipting to SAP may disclose some reasons for the posting delay.
- Installing a point of sale system could enable posting transactions automatically, thus eliminating the need for manual posting.
- Establishing standard monthly closing dates may facilitate timely posting.

4. School staff follows district procedures in receipting and depositing money

From observation and inquiry of staff in the schools visited, they use the standard receipt books and procedures. Staff is knowledgeable about making timely deposits and not leaving money in classrooms overnight. There are variations of receipting for field trips, sales of yearbooks, required classroom supplies and student stores. However, they appear reasonable. Staff exhibited a conscious effort to double check red bags to ensure they were locked when handing to the mail driver. While most schools visited have safes, some are quite old and it is unknown when combinations may have been changed. Individual school daily deposits, excluding nutrition services, ranged from \$3.00 to \$115,391 (mostly checks).

There are no recommendations for this procedure.

5. There are software issues in the schools for accounting for these funds

The schools visited use Quicken, Quick Books, Excel, EPES and Herf-Jones software to account for the various accounts they maintain for the students. The SAP system does not provide sufficient detail for the schools. The high schools can have 60 accounts for which they are accountable. They use Excel and the other software programs to be able to report the revenue, expenditures and balances to the various organizations on a timely basis.

The schools also write manual three part paper receipts. As a result, they are not able to answer parents' questions about the various school costs for their children. A manual search of individual receipts would be required to determine this amount.

Updating to current computer software systems would enable preparing computer generated receipts. They could also be electronically posted to the school activity account as well as recording individual student financial activity.

RECOMMENDATION

- The use of computer software for student accounting system should be investigated and implemented.
- The schools report there are many requests for the use of debit cards or credit cards. Computerized point-of-sale systems would allow for such use.

DRAFT

Management Response

We concur with the recommendations. The primary resolution is dependent on the Point of Sale system which has been recently funded. Procedures and training will be enhanced as recommended.

DRAFT



Seattle Public Schools The Office of Internal Audit

**Annual Risk Assessment and Audit Plan
September 1, 2016 through August 31, 2017**

DRAFT

Issue Date: September 13, 2016

Executive Summary

The Annual Risk Assessment and Audit Plan prioritizes the areas being considered for audit by evaluating the risks associated with each area. The risk factors used to assess each area include:

- The financial impact and materiality of the audit area
- The perceived quality of internal controls and the likelihood of errors
- The frequency of audits and reviews conducted by internal audit or other external agencies
- The results of prior internal and external audits
- The complexity of the audit area
- Turnover of key personnel and stability in management
- Requests and input received from District management and the School Board

In addition to the above risk factors, we also evaluate the timing implications of each area being considered for an audit. If an audit area is in the process of implementing significant changes to their operations, either in response to prior audit concerns or as part of an internal restructuring, we will adjust the timing of that area to ensure an effective audit. The audit plan is also designed to be flexible. On occasion, unforeseen circumstances may prevent the completion of an audit area. An audit area may experience significant turnover or operational changes that make an internal audit unrealistic at that time. It is also possible that the State Auditor's Office or other external entity may choose to audit an area before we complete our audit. Rather than duplicate the efforts of the external entity, that area will be replaced by another audit priority. The Audit & Finance Committee can also approve changes to the annual internal audit plan at any time, if new risks or priorities are identified mid-year.

The audit universe, from which potential audit areas are selected, has been continually developed over the years. As certain audit areas become obsolete (such as kindergarten tuition), they are removed from the audit universe. Any new areas identified during the year are added to the audit universe and evaluated with the same risk factors as all other audit areas. This year's audit universe includes new items for instructional materials adoption and professional development.

An evaluation of the risks facing the District revealed four significant factors impacting the District's operations. Each of these items are common among school districts throughout the country and are not specific to Seattle. The following risks were also considered in the preparation of the annual plan:

Significant Risk Factors Affecting the District:

- **Decentralized Environment**
The District is organized in such a way that schools must balance a degree of building-level autonomy with the requirement to comply with many centralized policies and procedures. This can create challenges for employees as they implement decisions aimed to accommodate the specific needs of their buildings. The District is also structured in such a way that many employees are located at schools, but they are supervised centrally. For example, a school custodian does not report to the school's principal, but rather reports to a centrally located supervisor within Custodial Services. Another example is the centralized accounts payable department that processes disbursements for school staff even though they do not have first-



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

hand knowledge of the transaction. This environment increases the risk that employees will not follow procedures because they believe that they are not being adequately monitored. There is also the risk that central office staff will not effectively communicate key control activity requirements to the outlying sites and schools, or provide them with the resources they need to perform the control activity properly.

- **Leadership Turnover**

This year continued to see a high level of turnover within the Superintendent's cabinet team, and with some key management positions. The turnover included the Deputy Superintendent, the Assistant Superintendent of Business & Finance, the Assistant Superintendent of Human Resources, the Chief Communications Officer, the Chief Information Officer, an Executive Director of Schools, the Executive Director of Curriculum and Instruction, the Accounting Director, the Transportation Manager, the Payroll Manager, the Director of Labor Relations, and the Accounts Payable Supervisor. Although the current leaders appear to be competent, accountable, and transparent, this situation still increases the risk that internal controls will not be clearly established, or that they will not be assigned clear ownership. This environment is further complicated by the fact that few formalized written procedures are available to the new leadership team. This increases the risk that "institutional knowledge" held by previous leaders has left the District.

- **Budget Constraints**

Budget constraints did not force the District to implement significant reductions in force this year; however, the District was unable to fund all budget requests associated with key internal control functions. The push to allocate more dollars to the classroom, rather than central support functions can lead to situations of inadequate controls or monitoring of key functions. Employees continue to take on increased workloads, increasing the risk that key control activities will not be performed. This increases the need for an independent internal audit function to evaluate the District's internal controls.

- **Segregation of Duties**

As a result of the continuous budget constraints, school districts are often faced with inadequate segregation of duties. As a result, one employee may have access to more than one critical function, which can lead to significant control breakdowns and potentially theft, loss, or abuse. This can be particularly true in schools, where one employee is often responsible for receiving, disbursing, and reconciling funds. A lack of segregation of duties increases the need for a strong internal audit function that can identify critical incompatible duties, and can recommend alternative controls when ideal segregation of duties is not possible.



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

Procedures Performed

In order to develop an audit plan for the 2016-2017 fiscal year, we performed the following procedures:

- Reviewed prior years' Annual Risk Assessment and Audit Plans to ensure a solid understanding of the risks and audit universe to be used as a starting point for the current year. Any new information obtained during the following steps was used to update the audit universe and reevaluate the risks associated with the areas being considered for an internal audit.
- Gathered information throughout the year from sources such as District training events, regular School Board meetings, School Board Committee meetings, oversight work sessions, work sessions, media reports, and discussions with District staff and parents. Any new information gathered that would impact our assessment of audit needs was monitored and evaluated along with existing information.
- Evaluated the results of the audits that we conducted during the year, along with the results of any external audits completed. This information not only helped to evaluate which areas were in need of an internal audit, but also in evaluating the timing of when an audit should be performed.
- Solicited feedback from the Board Directors on their assessment of risks and ideas for internal audits. This feedback provided valuable information regarding the District's priorities and challenges, and has been incorporated into this year's audit plan.
- Met individually with the Superintendent, Deputy Superintendent, and other members of District management and staff to gauge their sense of risks and obtain feedback on specific areas being considered for audit. This assisted with the risk analysis, and also the timing considerations associated with the various areas being considered for audit.
- Determined the Office of Internal Audit's available resources by calculating the number of work days in the year, and subtracting out anticipated administrative time, training, and leave time for vacations, sick days, and holidays. The net available resources are estimated to be 80% of the total work days available.
- Downloaded available financial data to assess the financial impact of the areas being considered for audit.
- Used the information obtained in the above procedures to evaluate each area against a variety of risk factors including materiality, likelihood of errors, frequency of audits, prior audit issues, complexity, turnover, and timing.
- Compared available resources to audit needs, and created multi-year audit schedules for non-capital audits and capital audits. The non-capital audit plan is included in [Appendix A](#), and shows all areas being considered for an internal audit. The capital audit plan and supporting background information are included in [Appendix B](#).



**Annual Risk Assessment and Audit Plan
September 1, 2016 – August 31, 2017**

**Appendix A - Non-Capital Internal Audit Plan
2016-2017**

Audit Area		Primary Audit Priorities	Secondary Audit Priorities	Long-Term Audit Priorities (3+ years)
1	School Audits	X		
2	Required Follow-ups to Prior Internal Audits :	X		
Required	Human Resources Follow-up Audit	X		
Required	S-275 Staff Mix Reporting Follow-up Audit	X		
Required	Quality of Employee Evaluations Follow-up Audit	X		
Required	Centralized ASB	X		
Required	Centralized Administration of Items Related to Schools Follow-up Audit	X		
Required	Nathan Hale High School Follow-up Audit	X		
Required	Franklin High School Follow-up Audit	X		
Required	Olympic View Elementary School Follow-up Audit	X		
Required	Lowell Elementary School Follow-up Audit	X		
Required	Vehicle Fleet Operations Follow-up Audit	X		
Required	Procurement Follow-up Audit	X		
3	Disbursements	X		
4	Apportionment – Staff Mix	X		
5	Apportionment – Student Enrollment	X		
6	Hiring Practices and Background Checks	X		
7	Payroll		X	
8	Athletics		X	
9	Instructional Materials Adoption Process		X	
10	Professional Development		X	
11	Custodial Overtime		X	
12	Field Trips		X	
13	Highly Capable Cohort Eligibility Identification Process		X	
14	Child Nutrition Services		X	
15	Security		X	
16	Data Sharing Agreement Spot Audits		X	
17	Travel Authorizations and Payments			X
18	Internal Service Billings			X
19	Department of Technology Services			X
20	Start of School Procedures			X
21	School Facility Usage			X
22	Employee Benefits Administration			X
23	Labor Relations/Employee Investigations			X
24	Utilities			X



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	Audit Area	Primary Audit Priorities	Secondary Audit Priorities	Long-Term Audit Priorities (3+ years)
25	1080 Instructional Hour Requirement			X
26	Community Engagement Compliance			X
27	Enrollment Planning/Boundaries			X
28	Building Leases			X
29	Budget Development			X
30	Alternative Learning Experience			X
31	Worker's Compensation			X
32	Fleet Management			X
33	Grants & Family Support Levy			X
34	Volunteers and Background Checks			X
35	General Counsel's Office/Litigation Costs			X
36	Enterprise Risk Management (ERM)			X
37	Inventory/Equipment Tracking and Surplus Warehouse			X
38	Personal Service Contracts (Also part of individual audits)			X
39	Debt Service Fund			X
40	Billing, Accounts Receivable, and Collections			X
41	Warehouse			X
42	Indian Education			X
43	English Language Learners (ELL)			X
44	Early Learning			X
45	Booster Clubs			X
46	Enrollment Office and Customer Service			X
47	Property Management			X
48	General Ledger/Financial Reporting			X

The annual internal audit plan is designed to be flexible. The primary audit priorities represent the high-risk areas facing the District, but they also represent more work than the available resources are capable of completing in a single year. The annual plan is not a commitment to complete all primary audit priorities, but rather is a commitment to focus on the primary audit priorities first. Since the Audit & Finance Committee approves the annual plan, it is necessary for the plan to include enough audits to keep the Office of Internal Audit busy throughout the year. In the event that one of the primary audit priorities cannot be completed for whatever reason, the plan includes an adequate number of available audits to prevent the Office of Internal Audit from having to come back to the Audit & Finance Committee mid-year to get approval to conduct an additional audit.

The main focus for the 2016-2017 school year will be on the items listed in the primary audit priorities column; however, we may also begin work on a secondary audit priority if necessary. On occasion, unforeseen circumstances prevent the completion of one or more primary audit priorities. An audit area may experience significant turnover or operational changes that make an internal audit unrealistic at that time. It is also possible that the State Auditor's Office or other external entity may choose to audit one of the primary audit priorities before we complete our audit. Rather than duplicate the efforts of the external entity, that area will be replaced by one of the secondary audit priorities.



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

Primary Audit Priorities

The following narrative provides background information on each of the primary audit areas. During the planning phase of each audit engagement we will conduct an engagement-level risk assessment to determine what the audit's actual area of focus will be. In accordance with Board Policy 6550, our primary focus will always be related to financial internal controls and compliance.

School Audits

Over \$9 million in cash and checks is handled by the schools each year. The funds consist of monies belonging to both the General Fund and the Associated Student Body Fund (ASB). This represents a significant risk to both the District and its students. To date, 100% of the 13 school audits completed have contained a finding related to cash handling and receipting, including one instance involving a loss of funds. Prior school audits have also identified concerns associated with unapproved overnight field trips, inadequate volunteer and chaperone screening, and extra pay compensation. However, since these school audits have begun, the schools have increased compliance with ASB depositing procedures and have improved their ability to properly define ASB activities. As a result, the size of the District's ASB Fund has increased each of the last four years.

We will continue to conduct school audits this year; however, we intend to alter our approach in an effort to reduce the time it takes to complete each one. The audit program for school audits will be condensed to focus primarily on the areas known to have a high rate of errors, such as cash handling. We also intend to ask Principals to certify in advance that they are aware of the common audit findings noted in prior school audits, and that they have reviewed the proper procedures with their staff. These efforts are intended to reduce the amount of time required for each school audit, while also increasing compliance on behalf of the schools. Reducing the resources required for a school audit is also supported by the District's push to implement a point of sale system this year. A point of sale system will assist schools with the receipting process and will allow families to make credit and debit card payments. The specific schools to be audited this year will not be identified in advance because we begin each school audit with a surprise cash count.

Required Follow-up Audits

The Internal Audit Board Procedure, 6550BP, requires follow-up audits to be completed within 6 months of management resolving the corrective action plans associated with each internal audit. Based on the information we have received from District management; we anticipate as many as 11 audits being ready for follow-up audit this year, including:

- Human Resources
- S-275 Staff Mix Reporting
- Quality of Employee Evaluations
- Centralized ASB
- Central Administration of Items Related to Schools
- Nathan Hale High School
- Franklin High School
- Olympic View High School
- Lowell Elementary School



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

- Vehicle Fleet Operations
- Procurement

Prior to commencing the audit planning process for next year, Board Procedure 6550BP will be reviewed with the Audit & Finance Committee to evaluate the requirement to conduct a follow-up audit for all internal audits. It is important to monitor audit recommendations to ensure that management is taking appropriate action to address audit issues, but it may not be necessary to conduct a detailed follow-up audit each time.

Disbursements

The District processes over \$100 million in expenditures through the accounts payable process on a yearly basis. This is a highly material area that has never been audited by the Internal Audit Department. An audit of disbursements will focus on how the District pays for goods and services, including verifying that the District has strong controls in place to ensure that it is only paying for items that have a legitimate business purpose. The audit is also likely to look at efficiency procedures, duplicate payments, and fraud prevention controls.

Apportionment: Staff Mix & Enrollment

The amount of revenue the District receives from the state is commonly referred to as apportionment. The District's state apportionment for the 2016-2017 school year is budgeted at approximately \$446 million. State apportionment represents 56.5% of the District's general fund revenue. This highly material amount is calculated based on data that the District self-reports to the State Office of Superintendent of Public Instruction (OSPI). This data is occasionally audited by the State Auditor's Office, and errors have been noted in the past.

The two main factors that determine the District's state apportionment are enrollment and staff mix. The enrollment apportionment is calculated using the number of students attending our schools multiplied by a legislative funding formula. In regards to staff mix, the state recognizes that in order for school districts to hire and retain experienced and qualified teachers, they must be able to compensate them at a higher rate. The state uses a staff mix formula to increase a school district's apportionment based on teacher experience and education level. In order to ensure that the District's state apportionment is accurate, and represents the full amount that it is entitled to, it's necessary to insure that the District has strong internal controls over the data transmitted to OSPI. These areas have never been reviewed by internal audit, and it's unclear if the District has clear ownership and monitoring over its data.

Hiring Practices and Background Checks

The District's largest operational expense is salaries, and the hiring of qualified employees is vital to the District's success. This audit will look at the District's hiring practices to ensure that it has adequate controls to ensure a fair process of hiring the best candidates and avoiding discrimination complaints. The audit will examine the structured hiring process for reviewing applications, conducting interviews, and recommending a candidate for hire. The audit will also look at the procedures for appointments that bypass the structured hiring process, the controls designed to ensure that a candidate meets the minimum job qualifications for a position, the process for salary placement, and the performance of employee background checks.

Appendix B - Capital Risk Assessment & Audit Plan

BACKGROUND

The Office of Internal Audit conducts audits “to support and promote integrity, openness, and transparency with respect to internal financial controls of all funds and compliance of the district.” Capital performance audits can assess program effectiveness, economy, and efficiency; internal controls; compliance; and prospective analyses to assist the board with its oversight of management.

The audit process should include a comprehensive, collaborative district-wide risk assessment that results in an annual work plan to address the risks identified. The audit plan for the non-capital areas of the district can be found in Appendix A. This work plan was developed for the district’s capital related areas and includes, but is not limited to, performance audits of major BEX IV capital projects.

The overall goals of capital performance audits are to

- review construction activity, with a focus on high risk aspects;
- examine the effectiveness and efficiency of capital operations; and
- provide the district with value-added recommendations to improve performance, mitigate risks, and increase compliance.

An audit plan typically begins with the creation of an audit universe. An audit universe is simply all things that have the potential to be audited. Topics deemed high risk are taken from the audit universe and scheduled for review, resulting in a work plan.

The audit universe for the capital function consists of all auditable programs, activity, processes, procedures, and transactions that are part of capital operations. The resulting work plan includes construction and non-construction topics, although construction audits are the primary focus. Construction audit efforts are currently focused on major BEX IV projects. Construction audits can be performed at any phase of a project or after a project is complete. Non-construction audits do not focus on a specific project, but on subject matter that is capital in nature.



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

CAPITAL AUDIT UNIVERSE

Capital Projects Planning

Construction Management

Capital Finance

Small Works Projects

Furnishings, Fixtures, Equipment and Relocation

Document Control

Asset Management

Capital Facilities Communication

Fund Accounting

Capital Programs

BTA – Buildings, Technology and Academics

BEX – Building Excellence

CEP - Capital Eligible Projects

The BEX IV levy is funding the following major building projects, earthquake upgrades for 37 buildings, and other projects, including technology improvements:

Arbor Heights Elementary School

Bagley Elementary School

Fairmount Park Elementary School

Genesee Hill Elementary School

Historic Horace Mann School

Hazel Wolf K-8 at Pinehurst

Jane Addams Middle School

Lincoln High School

Loyal Heights Elementary School

Meany Middle School

Thornton Creek School

Olympic Hills Elementary School

Queen Anne Elementary School

Seattle World School at T.T. Minor

Cascadia Elementary School & Robert Eagle Staff Middle School

Wing Luke Elementary School

CAPITAL AUDIT PLAN DEVELOPMENT

This audit plan was designed to be flexible and to adapt to unexpected, changing, or newly identified risks. Capital related risks identified in the course of prior audits were evaluated during the development of this work plan. Audits of construction projects require the consideration of unique factors when developing the audit plan. Some of these include:

1. The phase of the projects
2. The size, duration, and complexity of the projects
3. The bidding environment
4. Use of alternative public works project delivery methods
5. Type of project oversight
6. Change orders
7. Known cost or schedule overruns
8. District's experience with designer and contractor
9. Concerns expressed by stakeholders
10. Other risks exposed as the project progresses



**Annual Risk Assessment and Audit Plan
September 1, 2016 – August 31, 2017**

CAPITAL AUDIT PLAN

Fiscal Year 2017

- SPS Construction Management
- Arbor Heights Elementary School Construction
- Horace Mann Construction Audit Follow Up
- Genesee Hill Design Audit Follow Up

Fiscal Year 2018

- Select Construction Audit(s) Based on Annual Risk Assessment
- Appropriateness of Interfund Transfers
- Follow-up procedures on prior audits

Fiscal Year 2019 and Beyond

- Select Construction Audit(s) Based on Annual Risk Assessment
- Contractor Compliance with Apprenticeship and Prevailing Wage Laws
- Contractor Accountability
- Follow-up procedures on prior audits



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

The following information provides a general description of the capital audits currently scheduled. The scope and timing of the audits may change as the district's risk profile changes, and objectives will be refined at the time of audit.

Construction Management

The district has contracted with two private firms to represent it in the day-to-day management of BEX IV projects. Among other things, these firms monitor contractors and review contract modifications, change orders, and invoices. The audit will review the district's oversight of construction managers and examine the use of change orders and alternative project delivery methods.

Arbor Heights Elementary School Construction

This \$41 million project is for abatement and demolition of an existing school and construction of a new elementary school with alternates for additional capacity. The project was originally planned for completion in 2018 but was accelerated for completion in 2016. The audit will evaluate the district's processes for mitigating project and program risks. Audit scope and objectives will be refined during planning.

Horace Mann Construction Audit Follow Up

Internal Audit Procedure 6550BP requires follow up on prior audit findings. These procedures will determine whether the district has resolved the findings from the Horace Mann construction audit.

Genesee Hill Design Audit Follow Up

Internal Audit Procedure 6550BP requires follow up on prior audit findings. These procedures will determine whether findings from the Genesee Hill design audit have been resolved.

Appropriateness of Interfund Transfers

Capital Projects Fund resources are restricted for acquiring and constructing major capital facilities or assets, purchasing equipment, implementing technology systems, improving buildings or grounds, and funding other capital eligible activities. The purpose of this audit is to determine whether Capital Projects Fund resources are being used only to support capital programs. The audit will examine the appropriateness of interfund transfers and the eligibility of costs charged to Capital Projects Fund.

Contractor Compliance with Apprenticeship and Prevailing Wage Laws

The State of Washington requires 15 percent apprenticeship participation for projects estimated to cost \$1 million or more. To meet bidder responsibility criteria for public works projects with apprenticeship utilization requirements, bidders must have complied with these goals. Once contracts are awarded, the district should monitor contractors to confirm apprentice and journey



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

level worker labor hours and ratios. The district must also ensure that contractors pay prevailing wages. The purpose of this audit is to evaluate the district's internal controls for ensuring contractors comply with apprenticeship utilization and prevailing wage laws.

Contractor Accountability

The provisions of a contract allocate the risk between the owner and the contractor and serves as a guide for both parties in making decisions and managing disagreements. This audit will determine whether the district protects the public's interest by enforcing contract terms, holding contractors accountable for their obligations, evaluating contractor performance on a consistent basis, and using the results of performance evaluations in future decisions.

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Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

Appendix C - Staff Biographies

Andrew Medina, CPA, CFE, LPEC – Director of the Office of Internal Audit & Ethics Officer

Andrew is a Certified Public Accountant (CPA), a Certified Fraud Examiner (CFE), and a Leading Professional in Ethics & Compliance (LPEC), with over 20 years of audit experience. He joined Seattle Public Schools in August of 2011, after serving as a Senior Auditor for the Port of Seattle. Prior to joining the Port, Andrew was an internal auditor for the Clark County School District in Las Vegas, Nevada. He spent five years managing and conducting financial, operational, and compliance audits of the nation's fifth largest school district. As a Certified Fraud Examiner, Andrew was the department's fraud specialist, responsible for conducting the majority of the District's fraud investigations, as well as providing training to management and staff on fraud awareness and prevention. His fraud case study based on actual elementary school events was published in *Internal Auditor* magazine in February 2009. Prior to joining the Clark County School District, Andrew was a senior auditor with the State of Nevada Gaming Control Board. For 10 years Andrew helped regulate the casino industry by managing and conducting compliance, money laundering, and financial audits of Nevada's largest casinos.

Kimberly Fry, CPA, CGMA, CCA – Capital Audit Program Manager

Kim is a Certified Public Accountant (CPA), a Chartered Global Management Accountant (CGMA), and a Certified Construction Auditor (CCA) with more than 19 years of experience in Washington state, local, and tribal governments. She joined Seattle Public Schools in 2012 after working as an internal auditor for the Puyallup Tribe of Indians. At the tribe she was the primary government auditor, conducting operational and compliance audits of the tribe and its gaming enterprises. Previously Kim worked with the Washington State Auditor's Office where she performed financial statement, legal compliance, and federal Single audits of local government entities before transitioning to SAO's Performance Audit Team following voter approval of Initiative 900. Kim also served as a surety analyst with the Department of Labor and Industries where she assisted the department in certifying and overseeing self-insured employers. Kim is a Special Review Committee member for the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting program.

Amita Mathur – Senior Internal Auditor

Amita has over 9 years of auditing experience in government as well as the private sector. She joined Seattle Public Schools in 2012 after working as a Senior Internal Auditor at Farmer's New World Life (part of Zurich Investment Services). At Farmers she served as the lead auditor for the strategic, operational, compliance, regulation, and finance audits conducted on the life insurance segment in US. Previously Amita was an auditor with the Washington State Auditor's Office where she performed Financial, Compliance, and Federal grant audits for the higher education institutions, school districts, and local governments. Amita also has experience consulting start-up companies on their business plan presentations to potential venture capitalists.

Vacant – Senior Internal Auditor