



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

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### **Internal Audit Report Accounting and Record Keeping for Fiber Sharing Projects**

Issue Date: March 5, 2019



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## Internal Audit Report

### Accounting and Record Keeping for Fiber Sharing Projects

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## Introduction and Background

In accordance with the fiscal year 2019 capital audit plan, we have completed a review of the district's accounting and record keeping for fiber sharing projects under an intergovernmental agreement with other local, state, and federal agencies.

Washington's Interlocal Cooperation Act authorizes local governments to contract with other public agencies to enable cooperation in carrying out governmental activities and delivering public services. Local governments work with other public entities on a wide range of cooperative efforts. This type of cooperation can present economies of scale and increase the efficiency of government.

Thirteen government entities, including Seattle Public Schools, are currently partners in a consortium created to construct telecommunications systems using fiber optic cable as the transmission medium. The consortium has built a network of more than 700 miles of fiber throughout the Seattle area. This partnership consists of city departments and other agencies that share the resources and costs of the regional fiber optic network.

The effort began with an interagency agreement signed in December 1995. Seattle Public Schools joined in October 1998. A substantial amount of the district's fiber optic cable has been installed and maintained through this partnership. The 20-year agreement signed by the district in 1998 was extended in 2018, for another 10 years.

The interagency agreement is managed by the City of Seattle's Department of Information Technology (DoIT), which serves as the lead agency for installing and upgrading projects. DoIT obtains all relevant permits for fiber installation projects and maintains the fiber infrastructure once it is built. The district's projects are managed by the Department of Technology Services (DoTS).

Each fiber project can have multiple participating agencies that share the cost proportionally based on their ownership of the active fiber strands. It is common for project participants to install more fiber than they need at the time in anticipation of future demand. If, after a fiber installation project is completed, another public entity purchases any of the excess fiber, that entity will reimburse the paying parties for their proportional share of the total project cost. The city processes this transaction by issuing credits to the original paying parties. The district received more than \$200,000 in credits in 2017. This audit focuses on how the district has accounted for and managed credits.

## Audit Objectives

The objectives of the audit were to determine whether:

1. The district maintains records that ensure accountability for fiber projects and related resources.
2. The district has adequate controls over its accounting for fiber sharing transactions, particularly credits.
3. There is transparency regarding the existence and management of fiber project credits.



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### **Audit Approach and Methodology**

To accomplish the audit objectives using a risk-based approach, we performed procedures that included, but were not limited to, the following:

- Interviewed district staff and other partners in the consortium.
- Researched standard practices of public fiber consortiums and established expectations for record keeping.
- Identified high-risk elements of fiber project activity, with an emphasis on how the district accounts for credits.
- Evaluated the district's practices for applying credits.
- Examined payment and credit documentation for fiber projects.
- Reviewed the district's purchase order and check request processes as it relates to fiber expenditures.

### **Roles and Responsibilities**

District management is responsible for establishing effective internal controls and complying with laws, contracts, agreements, and district policies. District management is also responsible for creating, obtaining, and maintaining records that pertain to district operations. Internal Audit's responsibility is to test controls, assess the district's current practices, and make recommendations for improvement. We extend our appreciation to the staff in Accounts Payable for the valuable assistance they provided throughout this audit.

### **Results and Conclusions**

The district does not maintain fiber project records. Some fiber expenditures are not authorized through the purchase order process, and the district does not obtain project estimates. The district does not account for credits as they are received, track how credits are used, or maintain awareness of the credit balance. The management of fiber credits does not ensure accountability or transparency.

This report identifies opportunities for the district to enhance internal controls and accountability of public resources, increase transparency as it pertains to fiber credits, and make fiber refunds available for their intended use.

*Kimberly A. Fry*

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



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**Findings and Recommendations**

**1) Overarching Finding - Record keeping for fiber projects**

The district does not maintain fiber project records. Our expectation was that the district would have documentation consistent with the terms of the interagency agreement and with the district's history of fiber projects as a partner in the consortium.

The district did not have the intergovernmental agreement, and management was unfamiliar with its terms and conditions. The district does not execute written agreements for any of its fiber projects, retain records of completed projects, or maintain supporting documentation for annual maintenance expenses. The district did not demonstrate that it obtains cost estimates for planned fiber projects, accounts for and tracks the use of credits, or issues purchase orders for fiber expenditures in a consistent manner.

The absence of records limits the ability of the Office of Internal Audit to properly assess risk, identify suitable audit criteria, and determine which procedures are appropriate to address significant risks. This is an overarching finding, and recommendations to address these issues are detailed throughout this report.

**Recommendations**

While this was not an audit of the district's compliance with the interagency agreement, we recommend the district obtain a copy of the agreement and all of its addendums and ensure that management is familiar with the terms and conditions.

We recommend management determine when it is appropriate to execute formal project agreements. Management should also maintain records for each fiber project, including documentation to verify all relevant transactions or activity under the project.

## **2. Purchasing procedures and cost estimates for fiber projects**

The district uses the traditional requisition, purchase order, and invoice method to procure goods and services. DoTs follows the purchase order process for some fiber projects, but we found fiber expenditures for capital projects that did not have an approved purchase order authorizing the procurement of services. Instead, the district followed a direct payment (check request) process, a procedure that allows invoices to be paid without an approved purchase order. Authorization for these expenditures is granted once the invoice arrives, after goods have been received or services have been rendered.

The check request procedure is not appropriate for fiber project payments. It is meant for payments such as postage, subscriptions, dues, registrations, permits, certain refunds, and one-time purchases. The check request procedure is also used to pay vendors that do not accept purchase orders. For fiber project expenditures, an approved purchase order is more appropriate. The purchase order should be issued before fiber project services are performed and before the district begins receiving invoices.

In addition to completing the approval process prior to the buy, purchase orders also allow the district to encumber the amount of the purchase against the budget. We found that the district does not obtain cost estimates for fiber projects.

The district's contracting and purchasing approval matrix is not applied to check requests. The current check request procedures require only the approval of the budget authority. There is no limit on the amount of a payment when a check is requested. Therefore, approvals that would be required for a purchase order or contract are not required with a check request.

### **Recommendations**

We recommend DoTS obtain cost estimates and an approved purchase order to authorize all fiber project expenditures. The cost estimate should include any related administrative fees the district will incur to complete the project.

We recommend the district enhance its check request procedure and form to:

- clarify the intended spending thresh holds and required approval levels
- require the initiator to select from the list of allowable payment categories



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### **3. Accountability for fiber credits**

When a public agency purchases excess fiber from a completed project, DoIT issues a credit to the original partners based on their proportional share. There is little transparency within the district regarding the existence and application of fiber credits. The district's practice is to use credits to pay for unfunded general fund fiber projects. However, the district does not account for credits as they are received and does not have internal controls in place to ensure accountability.

The district does not maintain documentation to support each credit and does not track or record the current balance. DoTS does not retain records to show how credits are applied to unfunded projects. In 2018, Accounting attempted to substantiate the credit balance of \$227,000, most of which was carried over from 2017. However, DoTS did not have the records to facilitate that effort. Furthermore, there is no official guidance that informs management as to how the staff should account for or apply fiber credits. This is important because the balance can fluctuate as credits are used or as more credits are received.

### **Recommendations**

1. We recommend the district request a cash refund of \$227,000 from DoIT and apply it to the original expenditure accounts.
2. We recommend management create a formal policy requiring Accounting to request a refund of any fiber credit that exceeds a specified amount, within 30 days of receiving a credit invoice from the city. This is consistent with the amount of time generally required for the district to process standard invoices.
3. For greater transparency, we recommend DoTS work with Capital Finance to determine where fiber program credits should be applied. We recommend refunds of capital project fiber expenditures be applied to a capital account.



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#### **4. Process for managing fiber credits**

The process of initiating, approving, and paying for fiber projects can involve DoTS, Purchasing, Capital, and Accounting. When the audit began, however, only DoTS was fully aware that fiber credits existed or understood how they are earned.

The city's practice was to send all invoices for fiber project expenditures directly to DoTS. This included standard invoices for fiber project work, credit invoices, and annual maintenance invoices. This practice allowed DoTS to decide whether to send invoices to Accounts Payable, whether to use credits, and which invoices should have a credit applied. It was customary for DoTS to send invoices for capital fiber projects to Accounts Payable to be paid. The district's policy requires that vendors send invoices to Accounts Payable, not to individual departments.

#### **Recommendations**

We recommend the district instruct the city to send all invoices-standard, credit, and maintenance-directly to Accounts Payable and to include the purchase order number on the invoices.

We recommend Accounting process both standard and credit invoices and ensure that refunds are reflected in the accounting system.



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**5. Verification of annual maintenance costs**

As a partner in the consortium, the district pays approximately \$120,000 annually to the City of Seattle for maintenance on its fiber network. Maintenance expenses, which are shared with existing partners, include facilities leasing costs and lead agency (City of Seattle) management labor. The district does not retain the electronic files that validate the amount billed. DoTS is the process owner and should verify the amount billed for accuracy or reasonableness before approving these invoices for payment.

**Recommendations**

We recommend DoTS maintain supporting documentation for maintenance invoices and verify the accuracy of the amount charged.





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## **6. Review and approval of fiber interagency agreement**

Although it is not codified in district policies, the district's practice is for the board to authorize the superintendent to execute interlocal agreements. This practice is consistent with other public agencies in Washington State and with the Washington Interlocal Act. DoTS signed a 10-year extension to the fiber interagency agreement in 2018 and returned it to the city without further authorization.

### **Recommendation**

After review by the district's Legal Department, we recommend the school board authorize the execution of the intergovernmental agreement between the City of Seattle, the district, and other local, state, and federal agencies.

In accordance with the Washington Interlocal Act, we recommend the district create a policy that requires all interlocal or interagency agreements be authorized by the governing body.



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**Management Response**

Technology Services agrees with the auditor's recommendation that the district should request refunds for fiber projects and not let the credits accumulate as a credit on the account with the City. We understand that these credits are from 3rd party purchases of fiber since we entered the fiber agreement with the City. These funds will be placed in the appropriate fund used to support unfunded projects related to the fiber in the city.

*John Krull, Chief Information Officer*



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

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**Internal Audit Report  
Seattle World School**

**September 1, 2017 through December 31, 2018**

Issue Date: March 5, 2019



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**Internal Audit Report  
Seattle World School  
September 1, 2017 – December 31, 2018**

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## **Executive Summary**

### **Background**

We completed an audit at Seattle World School for the period September 1, 2017 through December 31, 2018. Seattle World School is located in the central region of Seattle Public Schools. It is an option school for grades 6-12 designed as a preliminary entry point for immigrant and refugee children. It offers English language support that is integrated with academic courses in a project-based learning environment. The School has approximately 300 students and 45 staff, and it operates on an annual budget of \$3.5 million.

Although Seattle World School was the focus of this audit our primary goal was to evaluate the overall system of internal controls put in place by the District. The decentralized nature of the District results in a situation where many key internal control and compliance functions are performed at individual schools. The audits conducted at individual schools will help ensure that these key functions are performed properly and are having their intended effect. This audit will also help to highlight those areas where schools may not have clear guidance on procedures they are expected to perform and identify situations where they have not been provided adequate resources to perform these key functions properly.

The Office of Internal Audit uses the findings and recommendations included in this report, along with the knowledge gained from other school audits to develop an annual risk assessment that will be used to identify future audit areas.

This audit was requested by District management due to concerns regarding the potential overlap of activities between Seattle World School and its school support and community-based organizations. This audit considered whether these activities have an impact on the School's compliance with applicable State laws and the District's policies and procedures.

The findings and recommendations identified in this report are not intended to highlight individual shortcomings, but rather are intended to guide employees on correct procedures. We appreciate the School's understanding of the internal audit process, and their desire to work with us on continuous improvement.

### **Roles and Responsibilities**

This audit was completed as part of the Annual Risk Assessment and Audit Plan approved by the Audit and Finance Committee on September 4, 2018. District Management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test the internal controls to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.



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Seattle World School  
September 1, 2017 – December 31, 2018**

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## **Audit Objectives**

To evaluate the School's compliance and internal controls in the following areas:

- Cash Handling & Receipting
- Graduation Waivers
- Out of District Credits
- Field Trips
- Fundraising
- Nutrition Standards
- Leave Time Approval
- Facility Usage

## **Scope of the Audit**

September 1, 2017 through December 31, 2018

## **Audit Approach and Methodology**

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

- Planned the audit in cooperation with central administration staff from Accounting, Human Resources, Nutrition Services, Payroll, Risk Management, and Teaching and Learning to ensure that we had a strong understanding of the District's compliance requirements.
- Reviewed applicable District policies, administrative procedures, and written guidance provided by departments in central administration.
- Reviewed applicable Revised Code of Washington and Washington Administrative Code for State compliance requirements.
- Conducted a surprise cash count to observe fiscal operations in their normal environment.
- Interviewed school staff knowledgeable of the objective areas.
- Analyzed available data to corroborate the information obtained.
- Examined accounting records and tested supporting documentation.



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**Conclusion**

Based on the procedures performed, Seattle World School appears to have adequate internal controls, and is in compliance with applicable State laws and District policies and procedures in each of the objective areas, except for the items noted in this report. This report includes recommendations that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the staff at Seattle World School for their assistance and cooperation during the audit.

*Andrew Medina*

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



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## **Findings and Recommendations**

### **1) Graduation Waivers**

Board Policy 2415 governs high school graduation requirements. The Graduation Requirements Bulletin and the K-12 Counseling Manual serve as the administrative procedures to further implement this policy. All waivers are required to be approved in writing and signed by school principals.

A total of four waivers were approved during the scope of the audit to waive the physical education requirement. We noted that all four waivers were approved and recorded by the same individual. In addition, three of the waivers did not have the required supporting documentation stating the reason for the waiver. Although, we confirmed that the reason for each of these waivers were valid and allowable.

### **Recommendation**

We recommend that the School:

- Ensure there is a segregation of duties when processing student waivers. All waiver request forms should be approved by the principal before they are processed and recorded into the students' records. A third authorized individual who did not prepare or approve the waiver should record waivers into the student information system.
- The preparer of the waiver request forms should ensure any required documentation to validate the reason for the waiver is attached to the form to aid in the principal's review of the waiver.



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## **2) Field Trips**

We evaluated a sample of field trips to determine whether they were properly documented, approved in advance, and supervised by qualified chaperones in accordance with Administrative Procedure 2320-A.

We noted that required field trip documentation, including field trip requests, procedure checklists, and chaperone lists were not always completed or provided to the Principal for review in a timely manner. Additionally, copies of field trip documents were not centrally retained in the main office, as required by the District's field trip policies and procedures.

### **Recommendation**

We recommend that the School establish effective internal controls to ensure compliance with all District policies and procedures related to field trips. The School should ensure that required field trip forms are properly completed, submitted for review in a timely manner, pre-approved by the Principal, and maintained in the main office.





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### **3) Fundraisers**

The Friends of Seattle World School, a non-profit organization has an ongoing fundraiser, Art Cards for Scholarships which raises proceeds through the sale of cards that feature re-printed images of students' art work. An estimated 1,000 - 2,000 cards are sold each year, which generates approximately \$5,000 - \$6,000 in net proceeds. All proceeds raised through the Art Cards for Scholarships fundraiser, combined with direct donations to the organization, are used to support the organization's Alumni Scholarship and Mentoring Program.

Allowing the use of students' art work could subject the District to liability risks, due to copyright protections. District Board policy 2025 recognizes that, "In general, students' own copyrights to their own creative works." It appears that students are informally made aware that their art work may be used, and students verbally provide permission for the use of their art work by the Friends of Seattle World School, but written authorization from students or their parent or guardian is not obtained. Images of art work has accumulated since the inception of the program in 2007 and are still available for re-print for several years after the students have left the School, which increases the risk of copyright concerns.

We learned that the art cards are sold at various supporting businesses, and until recently, at the School. The cards were previously available for sale in the school's main office, and school staff would accept payments on behalf of the organization and store proceeds on campus until collected by a representative from the non-profit organization. Since the handling of non-District funds by District staff creates undue risk to School staff and the District, the principal stopped allowing the sale of Art Cards at the School in December 2018.

### **Recommendation**

We recommend that the School:

- Obtain and retain voluntary written authorization from students, and their parent or legal guardian if the student is not of legal age, before any current or future student artwork is allowed to be reproduced. The written authorization should clearly indicate that students acknowledge that their artwork will be turned into cards and other products which will be sold for a profit to support the fundraising activities of the non-profit organization, Friends of Seattle World School, for an indefinite time period.
- Ensure that School staff will not be responsible for accepting payments on behalf of the external organization and will not have access to the funds if the School wishes to allow the sale of art cards in the main office.



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#### **4) Summer School Program**

The Seattle World School runs a summer school program known as the Summer Environmental Citizenship Academy (SECA) in partnership with community organizations, including the Refugee Women's Alliance (ReWA), Seattle Parks and Recreation, and the Vietnamese Friendship Association's Project Rise. The program is staffed by School employees, including administrative leadership, certificated teachers, and instructional assistants. The purpose of the program is for students to retain and improve their English language skills through engagement of the natural world and sciences. Students attend a fieldtrip each week, led by Seattle Parks and Recreation, to select locations within the City of Seattle to engage in active and hands-on learning. The program is funded primarily by the Families and Education Levy through the City of Seattle. The funds are awarded to ReWA, which passes a portion of the funds through to the School to cover costs for supplies, materials, and busses for fieldtrips. The main staffing costs, including compensation paid to the School employees involved with the program, are paid directly by ReWA and are not funded through the District.

The School was unable to provide a formal agreement between the School and ReWA covering the SECA program. Without a formal agreement in place, there is no clear documentation of the partnership's purpose, and the roles and responsibilities of each party. The following condition highlights the need for a formal agreement.

- Upon completing the program, SECA students are awarded up to 0.5 credits in English Language Development (ELD) on a pass/fail grading basis. The credits earned during the SECA program are recorded as in-District credits. Since the SECA program is operated by staff of the School, and the students earn in-District credits, the program has the appearance of functioning as an academic program of the District. However, staff are directly compensated by ReWA for the services they provide to the SECA program. As a result, it is unclear whether all District's policies and state laws that would be applicable to an academic District program are applicable to the SECA program.

#### **Recommendation**

We recommend that the District determine if a formal agreement with ReWA exists and can be located. If a formal agreement is located, it should be evaluated to determine if current procedures are in line with the agreement and in compliance with District policies and state law. If an agreement cannot be located, we recommend that the School:

- Work with the District's School & Community Partnership Department to develop a formal partnership agreement with ReWA that clearly identifies the purpose, roles, and responsibilities of each party.
- Work with ReWA and the District's Human Resources, Budget, Payroll, and Grants Departments to transition SECA compensation funding to the District, so that District staff working in the SECA academic program are compensated directly by the District.



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**Management Response**

*We concur with the recommendations. Procedures and training will be reviewed, revised and/or enhanced in adherence to district/state policy and best practices in service what's best for our students and school community.*