



# **SCHOOL BOARD ACTION REPORT**

**DATE:** September 12, 2017  
**FROM:** Dr. Larry Nyland, Superintendent  
**LEAD STAFF:** Amy Fleming, Accounting Director, [ajfleming@seattleschools.org](mailto:ajfleming@seattleschools.org)  
JoLynn Berge, Assistant Superintendent Finance,  
[jdberge@seattleschools.org](mailto:jdberge@seattleschools.org)

**For Introduction:** October 18, 2017  
**For Action:** November 1, 2017

## **1. TITLE**

Approval of the Washington State Auditor's (SAO) Annual Audit Services Contract for the 2016-17 Fiscal Year Audits

## **2. PURPOSE**

This Board Action Report would authorize the Superintendent to reimburse the Washington State Auditor's Office for its services up to the amount of \$346,890 for the District's 2016-17 fiscal year audits.

## **3. RECOMMENDED MOTION**

I move that the School Board authorize the Superintendent to reimburse the Washington State Auditor's Office (SAO) for its services up to the amount of \$346,890 for the District's 2016-17 fiscal year audits.

## **4. BACKGROUND INFORMATION**

### **a. Background**

The audit of the District by SAO is mandated by the State of Washington, in accordance with RCW 43.09.260, Local Government Accounting.

The audit includes three components required for the District: 1) Accountability Audit, 2) Financial Statement Audit, and 3) Federal Grant Compliance Audit. The SAO audit includes an assessment of Seattle Public Schools' annual revenues, federal expenditures, significant issues found in prior audits, bond covenants, and State laws and regulations.

The estimated timeline for the annual audit is as follows:

8/31/2017	Fiscal Year 2017 Ends
10/25/17	Accounting files the Fiscal Year 2017 Annual Financial Report (F-196) with the ESD
11/6/17(est.)	State Auditor's audit team arrives
11/15/17	Accounting files the Fiscal year 2017 F196 with OSPI
1/17/18	Fiscal Year 2017 Unaudited Annual Financial Report presented to Board per Board Policy 6030

- 5/18/18(est.) SAO completes financial and federal grant compliance audits
- 6/15/18(est.) SAO completes accountability audit
- 6/29/18(est.) Audit Exit Conference

**b. Alternatives**

Not approving this contract would violate State Law, which requires the SAO to examine the financial affairs of all local governments including Seattle Public Schools. The District could engage another independent firm for the annual audit. However, this would incur additional costs because the firm’s work must still be reviewed by SAO. Therefore, this alternative is not recommended.

**c. Research**

N/A

**5. FISCAL IMPACT/REVENUE SOURCE**

Fiscal impact to this action is originally estimated to be \$332,500. Rates for SAO are estimated to be \$95.00 per hour, reflecting a \$2.00 rate increase from January 1, 2016. A budget for audit costs of \$346,890 for FY17 includes a contingency of 151 hours of audit work above the planned 3,500 hours.

The revenue source for this motion is General Fund, and has been included in the annual budget.

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

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

**6. COMMUNITY ENGAGEMENT**

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

Not applicable

Tier 1: Inform

Tier 2: Consult/Involve

Tier 3: Collaborate

**7. EQUITY ANALYSIS**

As this action is required by state law, this motion was not put through the process of a full racial equity analysis.

**8. STUDENT BENEFIT**

This annual audit performed by the State Auditor’s Office ensures the District is utilizing its resources wisely to the benefit of students.

**9. WHY BOARD ACTION IS NECESSARY**

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

**10. POLICY IMPLICATION**

Per Board Policy No. 6220, Procurement, any contract over \$250,000 must be brought before the Board for Approval.

**11. BOARD COMMITTEE RECOMMENDATION**

This motion was discussed at the Audit and Finance Committee meeting on October 9, 2017. The Committee reviewed the motion and recommended it be moved to the full Board for approval.

**12. TIMELINE FOR IMPLEMENTATION**

Upon approval of this motion, SAO will perform their annual audit per the timeline anticipated above.

**13. ATTACHMENTS**

- RCW 43.09.260
- SAO notification of rate increase beginning January 1, 2018

**RCW 43.09.260**

**Local government accounting—Examination of local governments—Reports—Action by attorney general.**

(1) The examination of the financial affairs of all local governments shall be made at such reasonable, periodic intervals as the state auditor shall determine. However, an examination of the financial affairs of all local governments shall be made at least once in every three years, and an examination of individual local government health and welfare benefit plans and local government self-insurance programs shall be made at least once every two years.

(2) During the 2009-2011 fiscal biennium, the state auditor shall conduct audits no more often than once every two years of local governments with annual general fund revenues of ten million dollars or less and no findings of impropriety for the three-year period immediately preceding the audit period. This subsection does not prohibit the state auditor from conducting audits: (a) To address suspected fraud or irregular conduct; (b) at the request of the local government governing body; or (c) as required by federal laws or regulations.

(3) The term local governments for purposes of this chapter includes but is not limited to all counties, cities, and other political subdivisions, municipal corporations, and quasi-municipal corporations, however denominated.

(4) The state auditor shall establish a schedule to govern the auditing of local governments which shall include: A designation of the various classifications of local governments; a designation of the frequency for auditing each type of local government; and a description of events which cause a more frequent audit to be conducted.

(5) On every such examination, inquiry shall be made as to the financial condition and resources of the local government; whether the Constitution and laws of the state, the ordinances and orders of the local government, and the requirements of the state auditor have been properly complied with; and into the methods and accuracy of the accounts and reports.

(6) A report of such examination shall be made and filed in the office of state auditor, and one copy shall be transmitted to the local government. A copy of any report containing findings of noncompliance with state law shall be transmitted to the attorney general. If any such report discloses malfeasance, misfeasance, or nonfeasance in office on the part of any public officer or employee, within thirty days from the receipt of his or her copy of the report, the attorney general shall institute, in the proper county, such legal action as is proper in the premises by civil process and prosecute the same to final determination to carry into effect the findings of the examination.

(7) It shall be unlawful for any local government or the responsible head thereof, to make a settlement or compromise of any claim arising out of such malfeasance, misfeasance, or nonfeasance, or any action commenced therefor, or for any court to enter upon any compromise or settlement of such action, without the written approval and consent of the attorney general and the state auditor.

[ 2009 c 564 § 927; 1995 c 301 § 15; 1991 sp.s. c 30 § 26; 1979 c 71 § 1; 1965 c 8 § 43.09.260. Prior: 1909 c 76 § 8; RRS § 9958.]

**NOTES:**

**Effective date—2009 c 564:** See note following RCW 2.68.020.

---

**From:** Pat McCarthy, State Auditor <WASStateAuditorSubscriptions@sao.wa.gov>  
**Sent:** Thursday, July 27, 2017 9:24 AM  
**To:** WASStateAuditorSubscriptions@sao.wa.gov  
**Subject:** 2018 Local Government Billing Rate Notification

July 25, 2017

Dear Colleagues,

As of January 1, 2018, it will be necessary to make a modest adjustment to the local government hourly billing rate from the current \$93.00 to \$95.00.

This rate change comes in response to the following: a cost-of-living salary increase for state employees and increased employer health care costs passed by the Legislature, as well as the feedback you provided where you expressed a desire for more experienced audit staff.

The cost-of-living and health care cost increases account for the majority of the adjustment. A portion of the remaining funds will be employed to develop additional subject matter specialists who will provide an increased level of auditing expertise and service. The rate adjustment will help recruit, train and retain the most talented, skilled and dedicated employees to conduct your audits.

The adjustment notification comes later than planned because of the additional time the Legislature took to pass the biennial budget. However, I trust this still allows ample time to incorporate the rate change into your budgeting process.

The State Auditor's Office evaluates audit rates on an annual basis and will revisit the billing rate next year. We are also instituting new strategies that will improve efficiencies in the auditing process and make sure the service provided by this office is as cost-effective as possible for your government and Washington's taxpayers.

Sincerely,



**Pat McCarthy**

Washington State Auditor

Click [here](#) to manage your subscriptions.