



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Career and Technical Education**

September 1, 2011 - August 31, 2013

Issue Date: December 17, 2013



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Executive Summary

Background

In accordance with the 2012-2013 *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee, we completed an audit of the Career and Technical Education (CTE) Department's accountability for resources and program expenditures.

The Office of Superintendent of Public Instruction (OSPI) defines Career and Technical Education as a planned program of courses and learning experiences that begins with the exploration of career options; supports basic academic and life skills; and enables achievement of high academic standards, leadership, options for high skill, high wage employment preparation, and advanced and continuing education. CTE is organized under Teaching and Learning, Curriculum and Instructional Support. The department's mission is to broaden career choices for students, support and promote quality instruction, and ensure that every secondary school has a range of CTE offerings for every student, including skill center options. Seattle Public Schools delivers its CTE content through five broad pathways:

- Agriculture and Environmental Science
- Arts, Communications, and Media
- Business, Marketing, Information Technology and Computer Science
- Health & Human Services and Family & Consumer Science
- Science, Engineering, and Industry

While programs are offered through the school district, the legislature has authorized OSPI to establish standards that ensure high quality career and technical programs across the state, approve programs, and administer state funding. The district's 2012-2013 budget for Program 31, state basic vocational education, was \$7.9 million, an increase of \$244,000 from 2011-2012. Program 31 funds are used for work skills programs that have been approved for funding by OSPI, including state and local match requirements for federal vocational grants. The district spends most of the funds on salaries and benefits; the remainder covers the cost of supplies, equipment, travel, and instructional services provided by cooperating organizations.

Roles and Responsibilities

District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess control risk and test controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit with due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.



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Audit Scope and Objectives

The CTE Department activity we audited occurred during fiscal years 2011 through 2013. However, we did not audit all activity for this period. Instead, we focused on areas identified as high risk. At the request of the department, we also included a review of the vocational education program's indirect cost rate. The objectives of the audit were to determine whether:

- 1) The department is accountable for district resources.
- 2) The department has complied with its annual reporting requirements.
- 3) The department's expenditures are valid and appropriate.
- 4) The vocational indirect cost rate is appropriate and whether it reduces the CTE Department's spending capacity.
- 5) The district has an adequate process to ensure CTE teachers have the appropriate vocational certifications.

Audit Approach and Methodology

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

- Gained an understanding of the department's functions, funding allocations, expenditure categories, and applicable board policies.
- Identified risks related to the department's internal controls, compliance with policies and regulations, and accountability for fixed assets.
- Analyzed available data in planning and performing the audit.
- Reviewed CTE Department annual reports to the Board.
- Performed detailed tests of various types of disbursements, including personal services contracts (PSCs).
- Analyzed data relating to the vocational indirect cost rate, minimum expenditure calculation, and actual program expenditures.
- Tested a selection of CTE teacher vocational certifications.

Conclusion

Based on the results of our audit procedures, the CTE Department appears to be meeting the objectives set forth in Career and Technical Education Procedure C52.01.

We found that the vocational indirect cost rate is applied according to WAC 392-121-573, is consistent with other districts, and does not essentially reduce the CTE Department's spending capacity. This report contains findings and recommendations related to accountability and control of fixed assets, annual reporting to the Board, classification of independent contractors, maintenance of district records, and CTE teacher certifications that we believe will improve internal controls, compliance, and overall accountability.

Andrew Medina

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



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Findings and Recommendations

1) Accountability for District Assets

The district purchased equipment and supplies for a Gateway to Technology (GTT) middle school engineering program that never launched. Project Lead the Way (PLTW) would have been the district's partner in implementing the program. The equipment was subsequently put into use at another location without coordination with Fixed Asset Accounting, which does not comply with the district's fixed asset inventory procedures or the *Accounting Manual for Public School Districts in the State of Washington* (school district accounting manual). As a result, Fixed Assets was unable to track and properly account for the equipment in its inventory database until the time of this audit. The CTE Department was accountable for this equipment, regardless of where the funds came from to purchase it. Board Policy 6801 emphasizes the importance of fixed asset accountability as follows:

"It is the policy of the Board that district administrators be accountable through the performance evaluation process for the stewardship of fixed assets purchased with public monies under the control of the district."

Recommendation

We recommend the district, in keeping with its responsibility of public stewardship, adequately plan for future CTE equipment needs. We recommend the CTE Department follow district policy and procedures and the school district accounting manual for managing and controlling fixed assets. We also recommend CTE review its past equipment transfers and work with Fixed Asset Accounting to ensure district inventory records reflect those transfers.



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2) Annual Reporting to the Board

School Board Procedure C52.01 requires the CTE Department to annually report to the Board on program adjustments and enrollment growth, to include programming projections, recommendations for improvements, and a review of Program 31 expenditures by building and centrally. We found that CTE has complied with this policy in most areas. However, the CTE Department does not perform an annual review of Program 31 expenditures. The department provided sufficient evidence to demonstrate that it regularly monitors its budget and tracks spending. An expenditure review, however, would help to ensure that public funds are obligated and spent for reasonable, necessary, and allowable activities and in compliance with applicable state and district requirements and that the report to the Board is accurate.

Recommendation

We recommend the CTE Department annually review Program 31 expenditures to comply with Board Policy C52.01. This could be accomplished through an analysis of disbursements by type, vendor, and/or account coding, followed by an examination of supporting documentation for a judgmentally selected sample of transactions. Personnel expenditures, including extra time and overtime, should also be reviewed. The review should determine whether:

- Payments are for a valid business purpose and for goods or services actually received.
- There is sufficient documentation to support payments.
- Payments are reasonable, necessary, and properly approved.

The district has made tremendous efforts to improve controls over personal services contracts after repeat findings from the State Auditor. In order to be effective, however, these controls must be implemented at the department level. Therefore, we recommend that in addition to the above, the CTE Department's expenditure review of PSC disbursements include whether:

- Contracts were approved by Accounting before work began.
- Work is within the scope of the contract.
- The district's invoice standards have been met.



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3) Department Expenditures

Independent Contractor Classification

We noted two personal services contracts where the individual performing the services was a former district employee who worked in a capacity similar to the services provided under the PSC. The CTE Department did not follow the district's PSC procedures when it determined that the individual could be classified as an independent contractor. Accounting was unable to demonstrate that it followed proper procedures when it approved the contracts.

The department requesting services is responsible for making the initial determination of an individual's classification (employee or independent contractor). The determination is subsequently reviewed by Accounting during its PSC approval process. CTE determined this individual could be classified as an independent contractor even though she had worked for the district in a similar capacity in the 12 months prior to the date work would commence under the PSCs. In these cases, district procedures require the individual be classified as an employee and paid through the district's payroll system. This is the default status. If the department requesting the services disagrees with the employee classification, it is required to submit, on IRS Form SS-8, detailed information about the relationship between the district and the individual and the degree of control the district would exercise over the individual. This documentation allows Accounting to make a final determination as to the individual's classification.

Recommendation

As the IRS can hold the district liable for misclassification of an employee as an independent contractor, we recommend the CTE Department submit a completed IRS Form SS-8 to Accounting to support the department's initial determination. We recommend Accounting:

- Examine the similarities between the individual's work under the two contracts and the work performed as an employee.
- Review the degree of district control over the individual.
- Determine whether the individual was properly classified.
- Document the procedures performed in making the determination.

Maintenance of District Records

- The CTE Department was unable to provide an approved personal services contract to assist us in determining whether all PSC procedures were followed.

Recommendation

As the CTE Department is subject to audit by other organizations, such as the Washington State Auditor's Office, we recommend CTE maintain sufficient records to facilitate effective future audits.



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4) Vocational Teacher Certifications

WAC 181-77-020 requires that career and technical education instructors “hold certificates authorized by the professional educator standards board for service in the respective roles.” CTE teachers must have valid career and technical education certificates and be endorsed in the areas they teach. Otherwise, students claimed for these courses are not eligible for enrollment funding.

Human Resources (HR) has a process in place to ensure teachers maintain current certificates. However, HR did not have documentation to demonstrate that current certificates had been verified for two CTE teachers whose certificates had expired more than a year earlier.

Recommendation

We recommend HR improve its process to ensure teachers have the required certifications and maintain documentation to demonstrate that current certificates have been verified.



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Management Response – CTE Department

Background

Information contained in background report is accurate. I have been in the position of CTE Program Manager as interim since November of 2012 and as actual since April of 2013. Wendy Turner has been the CTE Program Analyst since March of 2012. We have been audited by OSPI on our federal grants in March of 2013 and there were no findings.

Findings and Recommendations

Accountability for District Assets –

Since learning of this finding, I have instructed all of my staff at our All Staff meeting on October 14, 2013 that if any equipment is moved we are responsible to inform Fixed Asset Accounting of the move and the barcode information of the equipment. We will make sure that our procedures reflect that any item of value that is moved requires informing fixed asset accounting.

Annual Reporting to the Board –

Our budgets and expenditures are shared and overseen by at least three individuals for accuracy and accountability. Spreadsheet data and backup documentation can be shared at any time. We will randomly audit items that may be considered high risk.

I can confirm that since November 2012, all contract procedures and policies have been met and all staff have been informed of these policies.

Department Expenditures –

We now understand the need for the proper IRS documentation and the reason for form SS-8 when completing a personal services contract with a former employee. Staff have been advised of this, and in the future all required documentation will be completed and maintained.

Maintenance of District Records

We understand the importance of maintaining up-to-date and accurate records and the length of time these records need to be kept. These guidelines will continue to be followed.

Respectively submitted: October 25, 2013

A handwritten signature in cursive script that reads "Mary Davison".

Mary Davison, CTE Program Manager



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Management Response – HR Department

The HR department has implemented an audit report that is now run regularly to make sure that all certification requirements are met. Also, a process has been implemented to send out regular reminders to CTE and all teachers that have upcoming expiring certificates. Once a year, a list of all teachers who have upcoming expired certificates for the next school year will be sent to their administrators, who will notify their teachers of the upcoming expiration. In addition HR will send out email notifications to all of these teachers.