



School Board Briefing/Proposed Action Report

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

DATE: August 25, 2015
FROM: Dr. Larry Nyland, Superintendent
LEAD STAFF: Kathie Technow, Accounting Manager, katechnow@seattleschools.org
Kenneth Gotsch, Assistant Superintendent for Business & Finance, kcgotsch@seattleschools.org

I. TITLE

Approval of the Washington State Auditor’s Office (SAO) Contract for 2014-15 Fiscal Year Audits

For Introduction: September 23, 2015
For Action: October 7, 2015

II. WHY BOARD ACTION IS NECESSARY

Per Board Policy No. 6220, Procurement, all contracts in excess of \$250,000 initial value, excluding sales tax and contingencies, must be approved by the School Board.

III. FISCAL IMPACT/REVENUE SOURCE

Fiscal impact to action was originally estimated to be \$321,100. Rates for SAO will increase from \$88.50 to \$93.00 per hour on January 1, 2016. The cost of the previous year’s audit totaled \$343,942, 12% above planned cost of \$306,429. Audit costs were budgeted at \$346,000 for FY16, assumes possible additional 253 hours of audit work above planned 3,500. The revenue source for this motion is the General Fund, and has been included in the annual budget.

Expenditure: One-time Annual Other Source

IV. POLICY IMPLICATION

Per Board Policy No. 1010, Board Oversight of Management, the School Board is responsible for governance and oversight of all departments and major program areas of the District, both academic and operational.

Per Board Policy No. 6220, Procurement, all contracts in excess of \$250,000 initial value, excluding sales tax and contingencies, must be approved by the School Board. This service is required by law and the expenditure has been approved in the 2015-2016 Accounting Services budget. Since services are estimated to exceed \$250,000, the Board must approve the contract to remain in compliance.

V. RECOMMENDED MOTION

I move that the Board authorize the Superintendent to enter into a contract with the Washington State Auditor’s Office (SAO) for the 2014-15 fiscal year audits for an estimated \$346,000.

VI. BOARD COMMITTEE RECOMMENDATION

This motion to approve the SAO Audit engagement was discussed at the Executive Committee meeting on September 17, 2015. The Committee reviewed the motion and moved the item forward to the full Board with a recommendation for approval.

VII. BACKGROUND INFORMATION

The Board may fulfill its oversight responsibilities, per Board Policy Nos. 1010, Board Oversight of Management, and 6220, Procurement, for the District's operations by considering:

1. Receiving and reviewing the annual external audits of the District's finances; and
2. Requiring the Superintendent to follow-up on the recommendations of the State auditors on a time appropriate basis, as defined by Board procedure.

The audit engagement includes the three audits required for the District: 1) Accountability Audit, 2) Financial Statement Audit, and 3) Federal Grant Compliance Audit (OMB circular A-133). The Washington State Auditor's Office audit includes an assessment of Seattle Public Schools' annual revenues, federal expenditures, significant issues found in prior audits, bond covenants and State laws and state and federal regulations.

The timeline for the annual audit is as follows:

FY14-15	Accounting submits detailed monthly financial reports to A&F Committee
08-31-15	FY15 ends
10-27-15	Accounting files FY15 F196 with ESD
11-02-15	SAO audit team arrives
11-12-15	Accounting presents unaudited FY15 financial report to A&F Committee
11-15-15	Accounting files FY15 Annual Financial Report "F196" with OSPI
11-16-15	SAO Audit team/Superintendent Nyland formally kick-off FY15 audits
01-20-16	FY15 Unaudited Annual Financial Report presented to Board per BP 6030
02-08-16 (est.)	Update Small Cabinet on SAO audit status
05-15-16 (est.)	Complete financial and federal grant compliance audits
06-15-16 (est.)	Complete accountability audit
06-17-16 (est.)	Audit Exit Conference

VIII. STATEMENT OF ISSUE

The audit of the district by the Office of the State Auditor is mandated by the State of Washington, in accordance with RCW 43.09.260, Local Government Accounting. The annual total for these services exceeds \$250,000 and must be approved by the Board.

IX. ALTERNATIVES

1. Not approving a contract would violate State Law, which requires the SAO to examine the financial affairs of all local governments including Seattle Public Schools.

2. The District could engage another independent firm for the annual audits, but this would incur additional costs because the firm's audit must still be reviewed by SAO. The District is satisfied with the performance quality and cost of the SAO audits. This alternative is not recommended.

X. RESEARCH AND DATA SOURCES / BENCHMARKS

N/A

XI. TIMELINE FOR IMPLEMENTATION / COMMUNITY ENGAGEMENT

Upon approval of this motion, the Washington State Auditor's Office will perform their annual audit with the approval of the School Board.

XII. ATTACHMENTS

- Board Policy No. 1010, Board Oversight of Management
- Board Policy No. 6220, Procurement
- RCW 43.09.260
- Washington State Auditor Fee Increase Letter
- State Auditor's Office Annual Financial Audit Costs

	BOARD OVERSIGHT OF MANAGEMENT	Policy No. 1010 February 6, 2013 Page 1 of 6
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Purpose

The purpose of this policy is to establish the roles and responsibilities of the School Board and the Superintendent in the oversight of the district and the policies to carry out these roles and responsibilities.

Oversight Roles and Responsibilities

The School Board is responsible for governance and oversight of all departments and major program areas of the district, both academic and operational (referred to below collectively as “Oversight Areas”). The School Board’s role in the oversight of management is to review and evaluate the performance of all Oversight Areas, at least annually, through formal reports, audits and any other reporting method deemed appropriate by the School Board through the Superintendent.

The School Board and the Superintendent understand that oversight of management is the responsibility of the Board as a whole, not of individual Board members. The Board shall hold the Superintendent accountable (in part through periodic evaluation) for the performance of these systems.

In addition to the system oversight of management responsibility, the Board also has oversight responsibility for academic performance. An Academic Performance Accountability Oversight Policy is set forth in Series 0000.

Goals

The goals of the oversight of management policy are to:

- Evaluate each Oversight Area’s implementation plans, goals and objectives.
- Enable the Board to perform appropriate oversight of management of each Oversight Area by monitoring progress toward performance indicators.
- Ensure the district has qualified personnel overseeing its programs.
- Ensure compliance with state law and Board policies and procedures.

Oversight Actions

1. The Board will develop and use a **District Annual Operations Data Dashboard** for monitoring all Oversight Areas, which shall be separate from and in addition to the district academic scorecard. The operations data dashboard shall consist of a limited

	<p style="text-align: center;">BOARD OVERSIGHT OF MANAGEMENT</p>	<p style="text-align: center;">Policy No. 1010 February 6, 2013 Page 2 of 6</p>
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number of carefully selected indicators that communicate the operational health of the district.

- The initial data metrics to be included in the 2011 operations dashboard will be proposed by the Superintendent to the Board for its review and consideration before September 2011.
- The Superintendent will prepare and present to the Board a report on the District Annual Operations Data Dashboard each November. The dashboard shall include key performance indicators for each Oversight Area (listed below).
- The Superintendent shall annually review the scorecard contents and propose any changes to the scorecard to the Board for its review and approval.

2. The Board will conduct not less than four **Oversight Work Sessions** each year for the purpose of reviewing overall system integrity for each Oversight Area no less than once every three years, provided that Finance and Human Resources shall be reviewed annually. The Superintendent and the Board shall work together to identify the departments and major program areas to give presentations each year.

Each oversight presentation shall at a minimum address:

- The functions of the department or program area and relationship to academic outcomes
- Organizational structure, names and qualifications of key personnel
- Budget and staffing overview
- Evidence of key internal controls
- Department goals & objectives and major initiatives in process and linkage to strategic plan goals
- Key Performance Indicators (KPIs) with the latest data available
- Department performance in meeting its goals and objectives
- Major information technology systems necessary to this function
- Key risks and opportunities associated with this function
- List of major outside service contracts, with brief description of each
- Response to Board questions submitted in advance

	BOARD OVERSIGHT OF MANAGEMENT	Policy No. 1010 February 6, 2013 Page 3 of 6
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The Board will receive final Oversight Area work session presentation materials and documents not less than two weeks prior to the scheduled work session. The Board will submit information requests/questions to the Superintendent not less than one week prior to a scheduled work session. The Board President and Superintendent will confer to finalize the list of information requests. Staff will provide additional written materials in advance to respond to these advance questions. All work session materials will be posted online. Executive summaries will be provided for any report containing extensive data.

Oversight Areas that shall report to the Board through Oversight Work Sessions include:

- **Teaching & Learning**
- **Finance** (will report annually), including:
 - Budget
 - Contracting
 - Accounting
 - Cash handling at schools
- **Human Resources** (will report annually)
- **Athletics**
- **Nutrition Services**
- **Coordinated Health, Safety & Security**
- **Transportation**, including:
- **Facilities**, including:
 - Custodial Services
 - Environmental Services
 - Maintenance Services
 - Property Management
 - Stanford Center Bldg Management
- **Capital Programs & Planning**
- **Distribution Services**, including:
 - Warehouse
 - Purchasing
- **Technology Services**
- **Enrollment & Planning**
- **Internal Audit**
- **Strategic Partnerships & Communications**
- **Legal**
- **Risk Management**

	BOARD OVERSIGHT OF MANAGEMENT	Policy No. 1010 February 6, 2013 Page 4 of 6
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3. In addition to the oversight work sessions, the Board may fulfill its oversight responsibilities for the district's operations by considering the matters identified below, as periodically forwarded to the Board for its consideration by the **Committees** referenced below. The Board may agree to refer matters to different committees.

Financial Systems

- Reviewing processes and internal controls used to ensure integrity of all major components of the district's financial systems
- Receiving and reviewing the annual external audit of the district's finances
- Requiring the Superintendent to follow-up on the recommendations of the external auditors on a time appropriate basis, as defined by Board procedures
- Receiving and reviewing all internal audit reports
- Requiring the Superintendent to make any necessary procedural changes based on internal audit reports
- Receiving and considering the recommendations of the **Audit & Finance Committee** with respect to these and other matters

Curriculum Programs

- Reviewing status of curriculum documentation and availability to teachers
- Reviewing processes for ensuring consistency of document curriculum and assessments
- Reviewing processes for building or buying new instructional materials consistent with the Series 0000
- Reviewing processes and status for training all certificated staff in curriculum, standards and the district's Theory of Action
- Receiving and considering the recommendations of the **Curriculum & Instruction Policy Committee** with respect to these and other matters

Human Resources

- Reviewing effectiveness of professional development
- Requiring the Superintendent to uphold integrity and transparency of selection processes
- Receiving reports on staffing not less than twice per year
- Reviewing effectiveness of performance evaluation processes

	<p style="text-align: center;">BOARD OVERSIGHT OF MANAGEMENT</p>	<p style="text-align: center;">Policy No. 1010 February 6, 2013 Page 5 of 6</p>
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- Reviewing compensation strategy
- Reviewing training programs with an emphasis on required trainings
- Receiving and considering the recommendations of the **Audit & Finance Committee** with respect to these and other matters

Support Services, Facilities and Capital Programs

- Reviewing Safety and Security: level of service and trend data
- Reviewing Construction Management policies and complete project reports
- Reviewing Facilities Maintenance 5 year plan and complete projects reports
- School Support Services: review major contracts, level of service, and customer satisfaction
- Capital levy planning
- Receiving and considering the recommendations of the **Operations Committee** with respect to these and other matters

Technology

- Receive return on investment calculations for all major systems
- Requiring the Superintendent to maintain equity of technology in all schools
- Reviewing “up” time for all systems
- Receive recommendations regarding technological innovations that could be integrated in the district and plans for transition of existing technologies
- Review general technology plans, policies and key technology strategies
- Receiving and considering the recommendations of the **Operations Committee** with respect to these and other matters

Superintendent

- Requiring a clear, fair and transparent planning process with appropriate engagement of key stakeholders
- Annually review the Superintendent’s performance
- Receiving the recommendations of the **Executive Committee** with respect to these and other matters

4. On a monthly basis, the Board shall receive a copy of the most recent available **monthly financial statements** showing the district’s balance sheet and income

	<p style="text-align: center;">BOARD OVERSIGHT OF MANAGEMENT</p>	<p style="text-align: center;">Policy No. 1010 February 6, 2013 Page 6 of 6</p>
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statement for all major accounts, together with a written summary of key points, identifying any significant trends or changes from the prior period.

5. Semi-annually, the Board will receive a **capital programs report**, prepared by the district's Assistant Superintendent for Operations and Assistant Superintendent for Business and Finance in consultation with the Operations Committee, designed to provide an overview of the status of capital programs and expenditures and show key trends. The report will include, but not be limited to, CEP, BEX and BTA program activities.

6. The Board shall also receive such **other annual program oversight & performance reports** as may be identified elsewhere in adopted Board policies or as directed by the Board from time to time. The Executive Committee will review the list of annual program reporting requirements each year and make a recommendation to the Board, as part of the development of the Board's annual work plan, as to which reporting requirements should continue and which should be consolidated into oversight workshop presentations or otherwise no longer be required.

7. The Board will oversee and review **internal audits** as described in Board Policy No. 6550 and Board Procedure 6550BP.

8. The Board will periodically review the district's **code of conduct, code of ethics and whistleblower policies and programs** to ensure they are operating appropriately and effectively.

9. The Board will be apprised by the Superintendent of any **government- or management-commissioned audits, reviews or reports** of the performance of district departments, programs or the district as a whole.

Adopted: June 2011

Revised: February 2013

Cross Reference: Policy Nos. 1005; 1240; 6550; 6550BP; Series 0000

Related Superintendent Procedure: N/A

Previous Policies:

Legal References:

Management Resources:

	<p>PROCUREMENT</p>	<p>Policy No. 6220 February 15, 2012 Page 1 of 1</p>
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It is the policy of the Seattle School Board to obtain materials, equipment, goods, supplies, contracted services, construction, and software and related acquisitions consistent with all applicable laws. District staff shall use sound business and financial practices that support the delivery of desired services and goods on time and within budget, while maximizing value and minimizing risk and cost to the district. The district shall promote fair competition to the extent practicable, including appropriate documentation of all situations where advertised sealed bids or requests for proposals are not used.

All contracts for more than \$250,000 initial value, excluding sales tax and contingencies, and changes or amendments of more than \$250,000, excluding sales tax and contingencies, must be approved by the School Board. Multiple changes and amendments which are for the same or similar services at the same time and same location, or continuation of existing activity shall be considered a single action for approval purposes.

This policy shall apply to all contracts, agreements, and Memoranda of Understanding (MOUs) where the district receives money, pays money, or commits time and resources, whether these are paid from operating funds, capital funds, grants, ASB funds or other sources. This policy shall not apply to individual employment contracts or collective bargaining agreements; all new employment contracts or collective bargaining agreements or renewals of such contracts or agreements shall require Board approval.

The Board delegates to the Superintendent all other authority and responsibility for procurement within the budgets approved by the Board. The Superintendent may delegate such authority to procurement staff or other designees as the Superintendent deems appropriate. The Superintendent is authorized to develop procedures to implement this policy.

Adopted: February 2012

Revised:

Cross Reference:

Related Superintendent Procedure: 6220SP.A; 6220SP.B; 6220SP.C; 6220SP.D; 6220SP.E; 6220SP.F; 6220SP.G; 6220SP.H

Previous Policies: G45.00

Legal References: RCW 28A.335.190 Advertising for bids — Competitive bid procedures — Purchases from inmate work programs — Telephone or written quotation solicitation, limitations — Emergencies; 39.04.280 Competitive Bidding Requirements — Exemptions; Management

Resources: *Policy News*, October 2005; June 2001

RCWs > Title 43 > Chapter 43.09 > Section 43.09.260**43.09.245** << 43.09.260 >> **43.09.265****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**.

Effective date, implementation, application -- Severability -- 1991 sp.s. c 30: See RCW **48.62.900** and **48.62.901**.

School district budgeting violations not to affect duties of attorney general under RCW **43.09.260**: RCW **28A.505.150**.

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Washington State Auditor's Office

July 31, 2015

Dear Colleagues,

As of January 1, 2016, we will adjust our local government hourly billing rate from the current \$88.50 to \$93.00.

This rate change comes in response to two major factors: a cost-of-living increase for state employees and the feedback you provided us in our State Auditor's Office Perception Survey, which expressed concerns about the proficiency and experience level of our audit staff and consistency in audit results.

The cost-of-living increase came with no additional funding from the Legislature and accounts for just over \$2.00 of the \$4.50 adjustment. Funding for enhanced audit support and for additional staff training and development accounts for the rest. Both of these adjustments will help us recruit, train and retain the most talented, skilled and dedicated employees to conduct your audits.

Although this rate adjustment notification comes later than I had planned because of the additional time it took for the Legislature to pass a biennial budget, I trust this still gives you ample time to incorporate the rate change into your budgeting process.

Yearly rate evaluations are one way we hope to minimize the impact of future increases and we will continue to do all we can to ensure that our auditing is as efficient and cost-effective as possible for your government and Washington's taxpayers.

Sincerely,

A handwritten signature in cursive script that reads "Jan M. Jutte".

Jan M Jutte, CPA
ACTING STATE AUDITOR

**Seattle Public Schools
State Auditor's Office (SAO) Annual Financial Audit Costs**

Calendar	FY 2014-15 (audit FY14)			FY 2015-16 (audit FY15)		
	Planned Year	Planned Hours	Planned Rate	Planned Amount	Planned	Rate
2014	750	\$83.60	\$62,700.00			
2015	2,754	\$88.50	\$243,729.00	1,000	\$88.60	\$88,600.00
2016				2,500	\$93.00	\$232,500.00
AUDIT PLAN TOTAL	3,504		\$306,429.00	3,500 a/		\$321,100.00
Estimated Actual	3,886		\$343,942.00	3,753		\$346,000.00 b/
Increase	382		\$37,513.00	253 c/		\$24,900.00 c/
Percent change	10.9%		12.2%	7.2%		7.8%

- a/ Audit Response Manager Annette Boulmetis:
3,500 total hours budgeted per SAO confirmed for FY 2015_16.
- b/ FY15-16 budget amount
- c/ Contingency for possible additional audit effort

Prepared by Business & Finance Office
August 31. 2015