



The Audit Connection



Welcome to our first Audit Connection newsletter specifically for schools! With the new school year in full swing, we want to help you get your schools and districts on the bus and navigating the route to #GoodGovernment!

Submit SEFA Using New Online System

There is a new way to upload the Schedule of Expenditures of Federal Awards (SEFA) for school districts and Educational Service Districts (ESDs)! This year, all school districts and ESDs will upload their SEFA, notes and — if applicable — the audit assessment questionnaire (Schedule 22) through the State Auditor’s Office (SAO) online filing system.

The online filing system allows you to upload everything in one place, and the system formats and inputs the clusters for you on the SEFA. This helps eliminate a great deal of work for schools and ESDs.

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A Message from Pat: Special edition speaks specifically to schools

Like a lot of parents, I remember looking forward to the fall, knowing my children would be back in school and back to their routine. As a former school board member, I also remember what a busy time the fall is for teachers, principals and district staff.



As State Auditor, I am impressed with the work of school budget officers and others to follow standards, report their finances and prepare for their audits throughout the year. We at the State Auditor’s Office (SAO) want to help schools in that work, and that is why we created this – the first schools-focused edition of The Audit Connection.

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Tracker Tool to Make Its Public Debut by End of Year

Tracker, the in-development feature for our Office's website that gathers and stores information on the status of audit findings and corrective efforts, is scheduled to be made available to the public by the end of the year.

We are currently testing and refining the interface the public will use when this feature begins operation.

Access by government users is now available for almost all types of governments, including state agencies and local governments. Government users access a view of Tracker that shows them information on only those governments they have a current role with. After logging in to their Online Services account, these authenticated users can

see reports, findings, and management letters.

When Tracker becomes publicly accessible on our website, public users will be able to select a government and see the findings it has received in the past several years, but not management letters or exit items. The public will also be able to see the status updates submitted by that government regarding the steps it has taken to correct the issues.

We are excited to bring this feature to the public as part of our ongoing efforts to help increase transparency and accountability in government.

Submit Your SEFA Using New Online System –

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The online filing system does require you to log in using your Secure Access Washington (SAW) username. You can use the following link to login using SAW:

portal.sao.wa.gov/SAOPortal

Because this is new for schools and ESDs, we created a training video to walk you through the online filing system and how to upload the required information. This

video is published on SAO's YouTube channel, which can be found at youtu.be/M6cBggQbeel.

The deadline for school districts and ESDs to submit the SEFA, notes, and audit assessment questionnaire (if applicable) to our Office is November 30, 2019.

We are available to help districts with any technical questions throughout the online filing process. Please email us at LGCSfeedback@sao.wa.gov for assistance.

A Message from Pat –

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Schools have a big job to do. People in Washington expect at least as much accountability from their local schools as any other level of government. Schools manage multiple sources of funding and requirements, from local school levies to federal program rules. And because schools are distinct from other types of local governments, we wanted to offer updates specific to you, the school staff and leaders who engage with SAO.

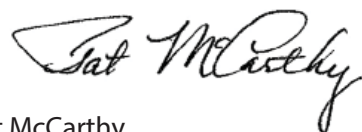
This edition of our newsletter is packed full of information you can use. You'll find articles on updates to standards and guidance, covering topics such as contract piggybacking and federal procurement. You'll also find news on our initiatives, such as Tracker, our online tool for following audit issues.

We have information on cybersecurity for schools, a topic that continues to grow in importance for all public institutions. We've launched a new initiative,

#BeCyberSmart, to share resources with governments of all sizes. Cybersecurity is everyone's job, from information technology professionals to facilities and operations managers, and we want to support them in that work. You'll find those resources on our website at www.sao.wa.gov/becybersmart.

We provide these resources because our vision is to increase the public's trust in government. We increase trust in government by providing objective reviews that your community's residents can rely on, and by providing governments tools like those you will find in these pages.

I hope you will find this newsletter informative and helpful. On behalf of SAO, thank you for your work, and we look forward to working with you!



Pat McCarthy

Pat.McCarthy@sao.wa.gov, 360-902-0370

Office to Perform Required Audits of Mandated Sub-Funds

In March 2018, the Legislature passed Engrossed Second Substitute Senate Bill (E2SSB) 6362, speeding the timeline for implementing a new salary structure for school districts that was adopted in response to the McCleary court case. Along with increased state spending, the Legislature adopted new requirements related to tracking local revenue spending.

As part of that legislation, school districts were required to deposit local revenues into a sub-fund of the general fund starting in the 2018-19 school year. School districts were also required to spend the allocation provided for professional learning in that year, as directed by RCW 28A.150.415 (Section 406 (3)).

On April 24, 2018, the Office of the Washington State Auditor and the Superintendent of Public Instruction issued a notice about the effective dates of the accounting and audit requirements contained in E2SSB 6362. For our audits of the 2018-19 school year, we would expect districts to have addressed the following requirements:

1. Are districts required to have established a local revenue sub-fund?

Yes. RCW 28A.320.330 requires school districts by the 2018-19 school year to establish a local revenue sub-fund to account for the financial operations of the district that

are paid from local revenues.

2. Are districts required to deposit 2018-19 local revenues into a sub-fund of the general fund?

Yes. RCW 84.52.0531 and RCW 28A.320.330 requires school districts to deposit and record local revenues separately through a sub-fund of the general fund. The school district accounting manual provides a list of revenue accounts to be used for recording revenues to the subfund.

3. Are districts required to record 2018-19 expenditures to the sub-fund?

Yes. for the 2018–2019 school year, districts are subject to the restrictions of RCW 28A.150.276 and are expected to track actual expenditures of local funds separately through a sub-fund of the general fund (RCW 28A.320.330).

The law also requires that for the 2019-20 school year, the State Auditor’s Office must conduct financial audits for compliance with all statutory requirements contained in E2SSB 6362. This includes spending of the school district local revenues that are to be deposited into a sub-fund of the general fund, as well as the professional learning allocation. Audits for these provisions will take place during the 2020-21 school year.

What’s Happening in World of Charter and Tribal Schools

In the world of Washington public education, charter and tribal schools differ in some aspects from other schools.

Charter schools have been on the fast track to learning. Not only are staff educating students, but they are also educating themselves in real time about the complex world of Washington laws, including documenting and reporting requirements for students, such as keeping straightforward records to show all public and private transaction activities are kept separate.

For some, the struggles to enroll more students and challenges in securing additional private funding proved too difficult. At the end of June 2019, three charter schools closed due to financial complications: SOAR Academy (Tacoma) Green Dot Destiny Middle School (Tacoma) and Green Dot Excel (Kent).

In the 2019-20 school year, 10 charter schools are serving 3,263 students across the state.

Washington charter schools, 2019-20 school year

School	Location	Grades	Students
Ashe’ Preparatory Academy	Kent	K-2	135
Green Dot Rainier Valley Leadership Academy	Seattle	6-10	395
Rainier Prep	Seattle	5-8	351
Summit Sierra	Seattle	9-12	338
Summit Atlas	Seattle	6-11	496
Summit Olympus	Tacoma	9-12	182
Impact Public Schools-Puget Sound Elementary	Tukwila	K-2	285
Innovations/Willow Public Schools	Walla Walla	6-8	52
Pride Prep	Spokane	6-11	557
Spokane International Academy	Spokane	K-8	472

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Center for Government Innovation Resources Can Help

The State Auditor’s Office (SAO) Center for Government Innovation has new resources that can help schools!

We recently passed the official end of School Districts’ fiscal year, and officials are busy closing the books and will soon be preparing financial reports. As you prepare those financial statements packages, we encourage you to check out a resource that might help you, “Checklist for reviewing financial statement reporting for school districts.” This resource follows the F-196 reporting model, and can help you whether you are using a cash or modified accrual accounting basis.

But you should also know that this is just one of many resources the Center for Government Innovation offers. The checklist above as well as many others are located on our website, in our resource database. Here are some of our newer resources we’d like to mention:

- **Segregation of duties: essential internal controls** - Just released in September of 2019, this guide covers which duties you should segregate for many financial processes, from payroll to cash receipting, and some options when you cannot feasibly do so. It also has some strategies for very small entities, as well as a self assessment tool to help you get started analyzing your own control system.
- **Using other’s bid awards ('Piggybacking')** – Recently

updated in September of 2019 due to changes in state laws, this resource provides information about the law changes and answers many frequently asked questions.

- **Best practices for travel expenditures** – Travel spending can be a risky area, check out these best practices to improve your program.
- **Best practices for credit card programs** – Whether you use traditional credit cards, procurement cards, or merchant cards, this can help you improve your practices.

We are also helping local governments to #BeCyberSmart! Check out our cybersecurity resources at www.sao.wa.gov/becybersmart/. These resources include the top three things various roles in a government should focus on relating to cybersecurity — because cybersecurity is everyone’s job! The guidance gives tips for human resources, leadership, and facilities, and three other roles.

If you didn’t hear about these resources, it might be that you are not signed up to receive them via our subscription services. Sign up for news and alerts on our website, www.sao.wa.gov/about-sao/sign-up-for-news-alerts/

We hope you find these new resources helpful, and we’d love to hear from you. Email us with your questions, comments, or recommendations for new resources at Center@sao.wa.gov.

What’s Happening in World of Charter and Tribal Schools— *Continued from page 3*

In 2018, we published a performance audit on charter schools, which is available at www.sao.wa.gov/wp-content/uploads/Tabs/PerformanceAudit/PA_Charter_Schools_Accountability_Opportunities_ar1022692.pdf.

In 2013, the passage of Engrossed Second Substitute Bill (E2SHB) 1154 authorized creation of State-Tribal Education Compacts with federally recognized tribes and Bureau of Indian Education (BIE) schools in Washington.

Tribal schools derive revenue from a blend of public, BIE grants and tribal monies. Chief Kitsap Academy is the only compact school that does not receive BIE funds. We perform audits of the public money the schools receive and determine whether it was spent appropriately.

Tribal schools do not have the same financial struggles as charter schools, and have not had an issue with keeping records to support revenue and expenditures. Charter and tribal schools are both learning about state reporting and recordkeeping requirements. Tribal schools have been quick to embrace and implement audit recommendations. Charter schools whose operations are overseen by out of

state staff have the most challenges meeting compliance requirements and implementing audit recommendations.

In the 2019-20 school year, seven tribal schools are serving 1,943 students across the state.

Washington tribal schools, 2019-20 school year

School	Location	Grades	Students
Chief Kitsap Academy	Suquamish Tribe, Suquamish	6-12	86
Chief Leschi Schools	Puyallup Tribe, Puyallup	K-12	534
Lummi Nation Schools	Lummi Nation, Bellingham	K-12	377
Muckleshoot Tribal School	Muckleshoot Tribe, Auburn	K-12	540
Quileute Tribal School	Quileute Tribe, La Push	K-12	119
Wa He Lut Indian School	Frank Landing Indian Community, Olympia	K-8	129
Yakama Nation Tribal School	Confederated Tribes and bands of Yakama Nation, Toppenish	8-12	158

Time's Up! Written Procurement Procedures Required

As communicated during audits and conferences in the past three years, local governments must fully comply with the Uniform Guidance general procurement standards found in 2 CFR 200.318 by the following dates:

- January 1, 2018, for entities using a December 31 fiscal year-end
- July 1, 2018, for entities using a June 30 fiscal year-end
- September 1, 2018, for entities using an August 31 fiscal year-end

Failing to comply with these standards may result in a higher level of reporting during the single audits of the 2018-19 school year.

These standards require local governments to use their own documented (written) procurement procedures, which reflect applicable state, local, and tribal laws and regulations, provided that the procurements comply with applicable federal laws and standards.

The standards also require local governments to maintain written standards of conduct covering conflicts of interest and governing the actions of employees engaged in the selection, award and administration of contracts.

The requirement for procurement and standards of conduct procedures is not new and was previously addressed in the Office of Management and Budget (OMB) Circular A-102 and Circular A-110. However, the Uniform Guidance explicitly required documented procedures by updating the requirement for procedures from "will" to "must" and adding the word "documented."

OMB allowed for a grace period of three full fiscal years after the effective date of Uniform Guidance (December 26, 2014) for local governments to bring procurement and standards of conduct procedures into compliance with Uniform Guidance procurement standards. This grace period allowed local governments to use their current procedures until changes could be implemented, as long as the entities documented which standards they were following.

The 2019 OMB Compliance Supplement states:



"Auditors will review procurement policies and procedures based on the documented standard. Once the grace period ends, all [local governments] will be required to comply fully with the procurement standards in the uniform guidance." To test compliance, auditors must obtain the entities' procurement and standards of conduct policies and procedures effective for the period under audit and verify they comply with general procurement standards.

If you have any questions about compliance with single audit requirements, please submit a HelpDesk request at SAO Online Services.

State Auditor's Office resources

General Procurement Standards – Title 2 U.S. Code of Federal Regulations Part 200, Section 318

2019 Compliance Supplement – Part 3 – Compliance requirements (3.2–I, Procurement); Part 6 – Internal Control

Procurement Policy Guidelines – Municipal Research and Services Center

Performance Audits Strive to Improve K-12 Services

State Auditor Pat McCarthy is committed to performance audits that improve K-12 student safety, health and education. In fact, since she took office in January 2017, the State Auditor's Office (SAO) has completed five such performance audits, with two more expected to be finished shortly. The five completed audits focused on: improving career and technical education offered to high school students; assessing whether law enforcement agencies and courts were notifying schools about criminal student offenses and how schools were responding; assessing how districts can better connect homeless students to services; and assessing how district lunch-scheduling practices can improve student eating habits. Other audits under way examine how districts can improve student vaccination rates and how they can work with state agencies to better identify students with behavioral health challenges and connect them to services. Keep reading for more information about each audit.

Completed audits

- **Leading Practices for the State's Secondary Career and Technical Education (CTE) Programs.** Many students look for jobs that do not require four years of college education. This audit examined how closely the CTE courses offered by school districts aligned with high-wage, high-demand occupational areas. The audit found districts could strengthen this alignment and better notify students about CTE and apprenticeship opportunities. The audit identified areas where the Office of Superintendent of Public Instruction (OSPI), the State Board for Community and Technical Colleges, and the State Workforce Board could better coordinate for improved CTE outcomes.

<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1020510&isFinding=false&sp=false>

- **Schools Can Influence Student Eating Habits Through Lunch Scheduling Practices.** Obesity in school-age children is a growing concern across the nation. Because of this concern, the Superintendent of Public Instruction requested this performance audit, which examined how lunchtime scheduling practices at elementary schools affect student eating habits. The audit determined that scheduling lunch after recess and allowing for 20-minutes of seat time positively affect the choices that students make when eating lunch. This audit identified common challenges that districts face when trying to implement these practices and recommendations to address them.

<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1024471&isFinding=false&sp=false>

- **Ensuring Notifications to Schools and Districts of Criminal Student Offenses / Evaluating School Responses to Notifications of Student Criminal Offenses.** To keep all students safe, educators need to know about students who have committed certain criminal offenses. The first audit looked at whether law enforcement agencies and courts were consistently notifying schools about students who had committed criminal offenses. The second looked at whether principals were notifying teachers, staff and subsequent schools about these students so they could take precautionary measures. The two audits identified practices to assure such notifications are taking place, as required by state law.

<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1021306&isFinding=false&sp=false>

<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1022545&isFinding=false&sp=false>

- **K-12 Homelessness.** Homelessness among students in the K-12 education system is a significant and growing issue in Washington. It is a stressful experience that has real consequences for the student's education. Stakeholders want to know what districts are doing to identify and help these students and which strategies can improve these efforts. This performance audit obtained valuable insights into K-12 student homelessness. It found opportunities to strengthen how districts identify, support and connect homeless students to services they need to succeed academically.

<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1023748&isFinding=false&sp=false>

Pending Audits

- **Common Barriers to Compliance with Student Immunization Requirements (publication expected in December 2019).** State health officials have set a goal of having 95 percent of all students fully vaccinated. The World Health Organization has determined that achieving this rate can protect those who cannot be vaccinated by preventing or minimizing outbreaks that pose a risk to public safety. Consistent with the recent measles outbreak, Department of Health records show the state is not meeting this goal.

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ACH Payment Systems Are Common Fraud Targets

It is common practice to use automated clearing house (ACH) systems to pay school district employees and vendors. The employee or vendor provides their bank account information to allow funds to be automatically transferred into the account. However, the number of frauds associated with ACH systems at school districts are rising dramatically, particularly for direct deposit paychecks. Individually, these are small – generally \$500 to \$5,000. However, the effect on your employee’s personal finances and overall trust in the payroll process can be significant.

Vendor ACH schemes are occurring less frequently, but we are seeing more instances and it can have a far greater material effect because these often focus on publicly known contracts with payments over \$100,000 and up to millions of dollars. School districts should keep a close eye on any requests to change how vendors are paid.

How do these frauds happen?

The common factor for both types of compromise is a fraudulent request to change the direct deposit bank account number for your employee or vendor. The fraud is quickly detected when the employee or vendor notices that their payment was not deposited in their bank account. However, by the time the vendor or employee notifies the finance department, it is often too late to stop any payment and the wired transfer cannot be recovered.

These fraudsters use many approaches to get you to change your employee’s or vendor’s bank account, but the most common method is email. And the attack is basic: “Please send me a direct deposit form. I want to

make changes to my bank account.” Or, “Please send future payments on this contract to our new bank account.”

What can be done to stop it?

The good news is that this is a very easy fraud to prevent. Simply verify EVERY bank account or payment process change request that isn’t made in person. A phone call to the employee or vendor using the phone number you have on record to confirm the change is all it takes. Do not use the email address or phone number in the email requesting the change. The fraudster will be happy to confirm the change.

In some cases, employees can modify their own bank account using a web-based portal. We recommend that all web-based employee portals that can access confidential or payment information be protected with two-factor authentication. If this level of security is not in place, the recommendation to verify every bank account change request is the same.

Help us shut down ACH fraud in Washington!

If your government is the victim of an ACH fraud, you are required to report it to the Office of the Washington State Auditor even if your bank recovers the funds. You can report the fraud at <https://portal.sao.wa.gov/saoportal/public/LossReport>

If you receive a fraudulent attempt to change an ACH bank account but don’t fall for it, congratulations! We applaud your education, awareness and control efforts. You do not have to report the fraud attempt.

String of Performance Audits Aim to Improve K-12 Services – *Continued from page 6*

This audit describes the state’s immunization requirements and challenges that some districts face when trying to meet them. This audit also compared practices at four districts with low-vaccination rates to practices at four districts with high vaccination rates. Based on this comparison, the audit identified practices that all districts can use to meet state immunization requirements and improve vaccination rates.

• **Evaluating Washington’s Prevention and Early Prevention Efforts in Students’ Behavioral Health**

(expected to publish in fall 2020). Half of those with a mental health disorder show symptoms by age 14. If not addressed, these problems may interfere with learning and the student’s ability to form and sustain friendships, increase risky behaviors and contribute to disciplinary problems. Recent survey and audit results show an increased need for access to mental health services for school-aged children. This audit will examine how state agencies and school districts can better identify and connect these students with needed services. It will also examine how these agencies and districts can improve the coordination of these services and reduce the barriers to them for better outcomes.

Local Audit Hourly Billing Adjustment Takes Effect in 2020

In August, Auditor Pat McCarthy notified governments of a coming adjustment to the hourly local audit billing rate. Beginning Jan. 1, 2020, the local audit billing rate will be \$113, due largely to significant salary increases that have affected all state employees.

The Legislature in recent years has been increasing salaries for state employees, including those at the State Auditor's Office. All employees received a 5% increase in 2019 alone. Another 3% adjustment takes effect in July 2020.

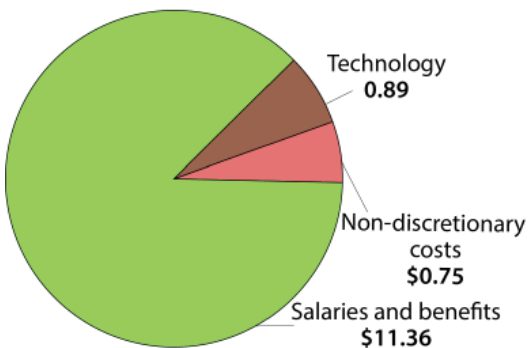
Our goal is to maintain this adjusted hourly rate for the next two years, through 2021. However, we evaluate our audit rates every year and are committed to continued communication of any future rate adjustments.

Details of new rate

The great majority of a local government's audit bill goes straight into local audit teams. Of the \$13 an hour increase, \$11.36 pays for salary and benefit increases such as those mentioned above as well as other statewide salary adjustments, such as reclassifications. This rate adjustment is based on maintaining current staff levels. We do not plan to use any portion of this increase to add more employees.

The remainder of the rate increase breaks down this way:

Breakdown of \$13 an hour increase



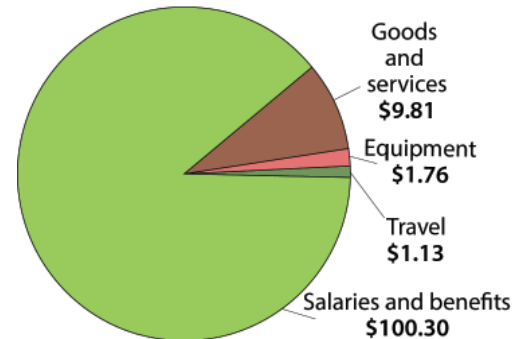
- \$0.75 for non-discretionary costs – in other words, costs beyond SAO's control. When salaries for all state employees go up, the price we pay for state services goes up, too. These services include legal assistance, insurance coverage and centralized technology infrastructure.
- \$0.89 for SAO essential technology, such as software licensing agreements.

In addition to the adjustment to the hourly local audit billing rate, the rate for fraud investigations will increase to \$210. This rate more effectively accounts for the full cost of fraud investigations and ensures the expense of a fraud investigation is not spread out across all local governments through the local billing rate.

How to manage audit costs

We know local governments work diligently to manage expenses, including the price of an audit. SAO wants to help. Before starting work, the audit team provides an estimate of audit cost to the government. We strive to remain true to that estimate, but factors outside SAO's control can contribute to increased audit cost.

Total hourly rate: \$113



To help manage audit costs, we recommend local governments take steps to prepare for their audit. Keeping files current and complete, organizing documents ahead of time, and ensuring key staff members are available can go a long way to controlling audit costs. For more tips on preparing for an audit, you can find a tip sheet at www.sao.wa.gov/preparing-for-audit-tips-for-success/

We are committed to continuing to provide and improve services local governments rely on. SAO operates the Auditor HelpDesk, an online request portal for audit or accounting issues that governments encounter.

Beyond audit services provided through the local audit billable rate, SAO provides additional services to local governments paid for through our sales-tax funded Performance Audit program.

If you have questions regarding this rate adjustment, please contact Director of Local Audit Kelly Collins, CPA, at (360) 902-0091 or at Kelly.Collins@sao.wa.gov.

We value your partnership and investment in good government.

Contact information

Cheryl Thresher, Schools Program manager: Cheryl.Thresher@sao.wa.gov or (253) 255-3502

Sherrie Ard, Center for Government Innovation program manager: Sherrie.Ard@sao.wa.gov or (360) 688-0496

Peg Bodin, Assistant Director of IT Audit: Peggy.Bodin@sao.wa.gov or (360) 708-5666

Chris Cortines, Assistant Director of Performance Audit: Christopher.Cortines@sao.wa.gov or (206) 355-1546

Stacie Tellers, Audit Manager: Stacie.Tellers@sao.wa.gov or (360) 725-5557

Find local audit team contacts at www.sao.wa.gov/about-sao/contact-sao/