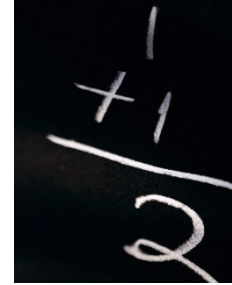


School District Audit Planning Guide



December 15, 2022
(for Fiscal Year End 2022 audits)

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Planning Guide Information

Supersedes previous planning guide dated December 15, 2020. Please direct questions or suggestions to Team School Programs. Guidance is based on the extensive research, brainstorming and reviews conducted as part of the [planning guide update process](#). For this update, guidance was also informed by:

- Ongoing discussion with Office Superintendent of Public Instruction (OSPI)
- Participation in School District Accounting Advisory Committee and WSIPC user group
- Outreach at the WASBO conference, and at a number of business manager meetings and other venues throughout the year.

Guidance is intended for internal use only to help auditors gain an understanding of school districts. The guide is intended to enhance planning and risk assessment procedures, not replace them. Information in the guide should therefore be considered along with other planning and risk assessment procedures. While guidance is designed to be as comprehensive as feasible, auditors must be alert for audit issues and situations not specifically addressed.

This guide is used by the State Auditor's Office staff as they plan audit engagements. Information presented in this document does not represent policy or legal guidance. State agencies and local governments should contact their legal counsels with specific questions.

WHAT'S NEW

Auditors should be aware of the following significant updates:

- [Apportionment](#) - For FY22 recommendations for local teams to perform basic enrollment work for FY 22 and consideration of follow up of prior audit issues can be found on Team School Programs Sharepoint.
- [Fiduciary Activities](#) – Beginning with the 2020-2021 school year, GASB 84 is expected to have an impact on school districts and require re-evaluation and changes to reporting for fiduciary activities.
- [Leases](#) – Beginning with the 2021-2022 school year, GASB 87 is expected to have an impact on school districts and require a re-evaluation of lease agreements and changes in reporting for both lessor and lessee situations.

REQUIRED RISKS TO ASSESS

The following risks must be documented as red flags and discussed during brainstorming to ensure sufficient consideration. They should be prioritized for audit to the extent they are applicable and significant to the District.

Professional Learning

Beginning with the FY19 school year, school districts receive funding for professional learning days provided to certificated instructional staff (i.e. teachers). The amount of funding received by each district is established in state law and calculated by OSPI. Although state law provides districts with funding for a number of days, certificated staff may receive any number of professional learning days. RCW 43.09.2856(3) requires SAO to audit the use of the state allocation as part of our regular audits. Auditors will be **required** to use the [testing strategy is available in TeamMate at Accountability | Entity Specific Areas | Schools | Professional Learning - REQUIRED](#). If auditors performed extensive testing of these requirements in prior audits, our expectation is that limited testing/audit procedures could be performed based on risks identified.

Local Revenue Sub-Fund

For FY19 audits, auditors will be required to determine whether school districts have (1) established a local revenue subfund of the general fund, and (2) recorded local revenues and expenditures to the subfund. Auditors will be **required** to perform the [Subfund FY19 - REQUIRED audit procedures in the Teamstore at Accountability | Entity Specific Areas | Schools](#).

The accounting requirements for revenues and expenditures of the subfund are effective for the FY20 school year. Therefore, we will not be testing individual expenditure or revenue transactions for compliance with the subfund requirements for the FY19 school year. Our review of the subfund activity for the FY19 school year will be limited to addressing the above two objectives.

For FY20, FY21, FY22 audits, auditors will be required to determine whether school districts have (1) developed a written plan and methodology for differentiating between expenditures of state and local revenues, (2) document specific enrichment activities included in the district's plan, and (3) verify the district allocated expenditures as described in their plan. A Levy Spending Plan (separate from the plan described above) must be prepared and approved for Local Levies (RCW 28A.505.240) prior to placement on the ballot. A spreadsheet with all local levies obtained from Secretary of State is compared to the approved levy plans received from OSPI. This information is available on Team SP SharePoint site and Team SP will communicate any compliance issues to local teams. If no compliance issues were identified by Team SP, no additional work is required. Auditors will be **required** to use the [testing strategy available in TeamMate at Accountability | Entity Specific Areas | Schools | Subfund FY20, FY21, FY22](#).

If extensive review of these requirements was performed in prior years, limited or focused audit procedures could be performed in subsequent audits. For example, reviewing changes or updates to subfund plans, activities not reviewed in prior audits, specific testing of methodologies/reconciliations/etc. as part of district's plan.

Supplemental Contracts

Additionally, auditors will review supplemental contracts and determine whether they include the elements required by state law. Auditors should consider the risk of whether employees were paid in accordance with pay outlined in the contracts. Auditors will be **required** to use the [testing strategy is available in TeamMate at Accountability | Entity Specific Areas | Schools | Supplemental Contracts](#).

Financial Condition

Financial condition risk will be assessed as a baseline test for accountability audits and as part of our going concern analysis for financial audits. Governments have experienced a wide range of effects as a result of COVID-19; auditors should be alert for any risks to financial condition and review [FYI 2020-01](#) for expected disclosures. Also see the section below on [Measurement of Financial Health](#).

EFT Controls

Payroll and vendor electronic file transfer (EFT) related cyber frauds continue to occur. Accordingly, controls over EFTs is a required risk to assess for all entities we audit. When assessing this area of risk, auditors should talk with the entity about its controls related to changing existing EFT contact information and associated bank account numbers. The approach perpetrators of these frauds use has evolved to include changing contact information for existing EFT transactions before requesting a change to the associated bank account numbers. Previously, entities were encouraged to follow up with the contact information known at the time of the request for changes to bank account information; however, a stronger control is to independently confirm any change to payroll or vendor profile contact information or banking account information. Individuals with the ability to change or add EFT accounts need to have clear guidance on the process to authorize these changes through a proper validation method. [A testing strategy is available in TeamMate at Accountability | Expenses | EFT Disbursements | Controls over EFTs. In addition, a testing strategy specific to payroll direct deposits is available at Accountability | Entity Specific Areas | Schools | Payroll Direct Deposits.](#) Contact [Team IT Audit](#) for additional clarification or guidance.

BACKGROUND

Public common school districts are established under Title 28A RCW for the purpose of delivering educational services and instruction to the children of Washington State. Each common school district is governed by an elected five-member board of directors (with the exception of Seattle School District which has seven).

School districts are managed by a district superintendent who reports to the board of directors and is responsible for carrying out district policy, administering operations, supervising personnel and advising the board of directors on all educational matters. The superintendent's duties are prescribed by RCW 28A.400.030. Other district personnel include certificated administrative personnel such as principals; certificated instructional personnel such as teachers; educational staff associates such as counselors, librarians, school nurses and psychologists; and classified personnel such as clerks, custodians, bus drivers, and food service workers.

At present, there are 295 common school districts located throughout Washington State. Public common school districts are of two classes: first class districts with a student full-time enrollment (FTE) of 2,000 or more and second class districts with a student FTE of less than 2,000. (28A.300.065 RCW) There are different statutory requirements in a few areas for first class and second class districts (28A.330 RCW).

Districts with **less than 250 average annual full-time equivalent (AAFTE)** student enrollment are eligible to receive annual assessment audits ([Audit Policy 1210](#)).

Charter Schools

As of September 1, 2022 there are 16 public charter schools operating throughout Washington State. On March 10, 2016 the Senate passed SB 6194 (adding RCW 28A.710.270) requiring the state to use funds from the Washington opportunity pathways account to support public charter schools. Charter schools are open to all children free of charge and by choice and are operated separately from the common school system as an alternative to traditional common schools. Each charter school district is governed by a board of directors appointed or selected under the terms of a renewable, five-year charter contract executed under RCW 28A.710.160. Team School Programs will be performing the audits of all charter schools for the 2021-2022 school year.

Tribal Schools

As of September 1, 2022 there are 7 tribal compact schools operating in Washington State. On May 16, 2013 the legislature passed ESSHB 1134 (adding RCW 28A.715) authorizing the superintendent of public instruction to enter into state-tribal education compacts. Team School Programs will be performing audits of all tribal compact schools for the 2021-2022 school year.

Industry, Regulatory and Other External Factors

Common school districts operate in a highly regulated environment. Districts are also subject to a high degree of oversight, primarily from the State Office of Superintendent of Public Instruction (OSPI). Districts are also supported by nine regional Educational Service Districts (see the ESD planning guide for details). Auditors should not contact OSPI directly. Any questions or concerns regarding oversight should be directed to Team SP (or the Single Audit Specialist for federal issues).

Controls over compliance and financial reporting are facilitated by:

- *Prescribed Accounting* - Accounting and financial reporting for schools is prescribed by the Accounting Manual for Public School Districts. The manual is prepared by SAO and OSPI, with input from an advisory committee comprised of district financial professionals from around the state.
- *Common Software* - Almost all districts use a common software package called SKYWARD (previously known as WESPAC) which is supported by Washington School Information Processing Cooperative (WSIPC). This system is designed solely for Washington schools and has built in compliance with the Accounting Manual, intends for tight integration with OSPI and ESDs, and has extensive edit checks and reporting functionality specific to Washington laws and regulations. Skyward has rolled out a new software called QMLATIV. Some districts have migrated or are in the process of migrating from Skyward SMS 2.0 to Skyward QMLATIV. See the section on [QMLATIV Conversion](#) for additional information and required procedures.
- *Involvement by OSPI, ESD and County* - Counties provide an independent treasury function, with monthly reporting to both the ESDs and school districts. OSPI and ESDs provide extensive guidance and technical assistance.

The main business risk for schools is their financial condition. For most schools, approximately 80%-90% of expenditures for normal operations (excluding capital projects) are for payroll. Since most programs and operations are mandatory and highly regulated and since most employees are unionized, districts experiencing financial difficulty may find it hard to cut costs.

Measurement of Financial Health

Financial health continues to be a risk for school districts – see also [Required Risks to Assess](#). Indicators of poor financial health may include the following:

- *Enrollment that is declining or much lower than budgeted* – The upcoming year's budget, including the number of teachers needed, is developed based on enrollment projections. If actual enrollment is much lower than budgeted, teacher salaries will need to be covered from reserves. It is very important that districts carefully monitor their enrollment numbers to enable them to analyze whether budgeted revenues are in line with expectations. If enrollment projections are not met, districts with low cash reserves may encounter financial difficulties, since this is a major source of funding.
- *Low and/or decreasing unrestricted cash balances*
- *Low and/or decreasing general fund balance* – When evaluating this measure, auditors should consider the nature of any reserves or designations of fund balance. Auditors should also consider whether the district has commitments or contingencies that are not reflected in designated fund balance.
- *Increasing debt* – Debt increases may occur without cause for concern, especially when large construction projects or other large undertakings have occurred. This type of debt is normally voted and funded by property tax revenue, so there is less risk that a district would be unable to make debt payments. Districts that have increased their non-voted debt are at greater risk, so auditors should look for those increases. Auditors also should consider the structure of the debt incurred – some debt can have lower payments initially with balloon payments years down the road. These increased payments may have a significant effect in the future.
- *Use of registered warrants, apportionment advances or budgeted receivables* – Districts may issue registered warrants when they are spending money they don't have on hand. Districts may also request a special apportionment advance from OSPI. These situations are usually caused by a one-time cash shortage at the

beginning of the school year and only continue for a few months. As long as the annual budget is balanced and the district is operating within the budget, this may not be cause for much alarm; however, if a district cannot balance its budget without including future period revenues (known as "budgeted receivables"), the district is in financial crisis. Districts must go through a formal process with OSPI to get permission to budget receivables. OSPI will require the district to enter into what are known as "binding conditions". Binding conditions are the plan the district has to get back on solid financial ground. It can include replacing the superintendent and/or business manager, or having the ESD oversee all of the district's finances for a certain period of time.

- *Compensation increases and funding changes* - Provisions of the new McCleary bills significantly change district funding drivers, the impacts of which are expected to vary across districts. Districts now receive a flat amount of funding per teacher; and are given an experience factor for teachers who meet criteria for years of experience and a degree beyond a bachelors. The legislature removed the statewide salary schedule that served as a baseline for almost every district in our state. This has left each district to develop their own salary schedules. The legislature has increased funding to address higher costs of living in some areas by adding a "regionalization" factor based on housing values in the surrounding areas. Limits on property tax assessments have reduced the amount of funds some local school districts can collect in the form of local voter-approved levies. These reductions took place in January 2019, and will affect some districts more than others based on how dependent they were on local levies to pay salaries, benefits, and programs prior to this year.

OSPI was mandated by the legislature to create a tool to measure the financial condition of school districts. OSPI has developed a "[School Financial Health Indicators Model](#)" to monitor the financial condition of school districts across the state; however, this analysis is not completed until early spring of each year. Because this tool is not available until outside of our school audit cycle, we will use our own similar financial indicators to analyze financial conditions for each district.

Specific focus should be given to those districts that have binding conditions:

- None for FY22

For specific impacts to consider related to COVID-19, see [Appendix 2](#).

PLANNING & ADMINISTRATION

Apportionment audit work may be conducted by both the local audit team and by Team School Programs (SP). Recommendations for basic enrollment work may be found on Team SP Sharepoint. Updated testing strategy is available in Teammate **Team SP will conduct all audits of charter and tribal schools for FY22.**

Training and Additional Resources

The following recorded webinar is available in the [training system](#) and may be helpful when auditing school districts:

- [Auditing ASB Fundraisers](#)

Additional resources related to school districts can be found on the SAO intranet site on the [Team School Programs](#) page.

Additional resources related to a common system review for Skyward QMLATIV systems and Skyward SMS 2.0 can be found on the [Team IT Audit](#) page.

Key Entity Information

Key information about district operations that the auditor should consider as part of planning and consider for documentation in the permanent file includes:

- Whether the district uses Skyward SMS 2.0, QMLATIV or some other software.

- The number of students and staff and the number of schools operated, by type (high school, middle school, elementary school).
- Any significant special programs the district offers, such as alternative learning programs, daycare, or after-school programs.
- Any significant participation in cooperative programs, such as the ESD 112 and ESD 113 special education cooperatives.
- Whether the district contracts for food services or transportation services.
- Major events, such as significant new programs or activities, commitment to major construction (e.g. issuance of debt or award of contracts), or significant new grants.

Required FAP Queries

School district financial statement audits include several required procedures using FAP queries. These procedures are incorporated into planning, concluding, and the “[Review Presentation & Disclosure](#)” sections:

- Data Validation: Auditors are required to review the data validation summary which compares revenues and expenditures to the F196 from OSPI in order to determine whether we can rely on the data received from the District.
- 3-year trend: Auditors will review the 3-year trend of F-196 line items required query from FAP in the OSPI system menu. This review should include reviewing fluctuations between F-196 line items for potential financial statement risks/misstatements considering general expectations of types of activity, level of activity, and relationships between line items.
- OSPI Revenue Confirmation: Auditors are required to review the OSPI Apportionment Revenue Substantiation query as part of the financial statement audit substantive procedures available at [Financial Statements | School F196 Statements | Baseline Testing | OSPI Revenue Confirmation](#). The query compares district reported revenues to revenues reported by OSPI on the 1197 report. Auditors should consider follow-up procedures on variances outside the expected range that are above the floor.
- Subsequent Events: Auditors will review the required subsequent events FAP queries (where available) and inquire of the district regarding transactions which may indicate a subsequent event that should be disclosed.
- Journal Entries: Auditors will review the required Journal Entry Summary query by scanning all year-end adjusting journal entries and testing selected entries.

FAP based CAATs are available for districts using Skyward SMS 2.0 / WESPAC and Sungard-BITech, which include the required tests. Access based CAATs are also available for districts using Infinite Visions, as well as other district specific systems. Auditors should work with Team IT Audit if the CAATs database does not include the required tests as auditors are required to perform the above procedures. If the procedures are not available via CAATs, **the amount of audit time required to perform these procedures may be higher.** Auditors should contact Ryan Montgomery, Team SP with questions.

Moody's and Audit Cycles

School districts who receive a Moody's credit rating must receive a Financial Audit at least once every two years. These financial audits must be issued within one year of fiscal year-end, which is August 31st. Affected districts have been contacted. However, auditors should be aware of this continuing requirement.

QMLATIV Conversion

Some school districts are converting from Skyward SMS 2.0 to Skyward QMLATIV. When converting to new software, an entity should ensure the accuracy and completeness of data transferred to the new system, that the new software is working correctly and that user accounts and security settings in the new system are appropriate. Auditors must review the conversion the first audit cycle after a district has converted from Skyward SMS 2.0 to Skyward QMLATIV regardless of the audit scope(s). A [migration map](#) is available on WSIPC's website to check the status for each district. [A testing strategy is available in TeamMate at Permanent File | School F196 | QMLATIV Conversion](#). Contact [IT Audit](#) with any questions.

ACCOUNTABILITY

RCW 28A.510.270 requires districts to use the County Treasurer as their fiscal agent.

Apportionment

EHB 2242 was passed on June 30, 2017, fully funding the state's program of basic education. E2SSB 6362 provided additional changes to funding of school apportionment. New guidance was developed for implementation of these laws. For FY22 recommendations for local teams to perform basic enrollment work for FY 22 and consideration of follow up of prior audit issues can be found on Team School Programs Sharepoint.

If local teams note any risk indicators or unexpected results, they should contact Team School Programs.

Special Education

Team SP is not performing regular audits of special education for fiscal year 2022 in school districts. Focus for SPED enrollment work will be in Charters and Tribal audits for FY 2022. However, if you have identified a risk at a district not selected for audit, please contact the Team School Programs Manager.

Associated Student Body (ASB)

ASB continues to be an area of risk for school districts due to the many state requirements and high inherent risk associated with related fundraising, events, and cash receipting activities. ASB is an area unique to school districts that allows students to raise funds for cultural, athletic, recreational or social purposes only. Students raising funds for clubs with either mandatory participation, offering credit or a grade fall into General Fund fundraisers; district should have a policy which is followed for General Fund fundraising. These are **not** ASB activities. Auditors should consider performing analytical procedures and inquiry during planning procedures to gain an understanding of the scope of activities and level of risk.

School districts who experience turnover in key positions overseeing ASB, do not perform adequate monitoring (i.e. reconciliations of athletic event ticket sales), or who have not adopted practices such as those in the WASBO manual are at an increased risk. Districts should ensure that all schools are following policies and procedures related to ASB activities.

Each district should have an ASB constitution and each building should have their own By-Laws. Rules are different for K-6 and 7-12. The [WASBO ASB manual](#) is a good resource for school districts, but unless it is adopted as district policy it is not authoritative.

See additional information and testing strategies in TeamMate at [Accountability | Entity-Specific Areas | Schools](#). An ASB Self Study is available.

Revenues

School districts' largest source of funds are state apportionment and state & federal grants. Districts' second largest source of funds is from property taxes. Districts also collect a variety of local revenues from fees, fines, donations and Associated Student Body activities.

- *State Apportionment funding* – Every student is first and foremost a basic education student. Enrollment in programs such as CTE, running start, et cetera lead to additional funding on top of basic education funding.
- *Special Education grants (state and federal)* - Each student claimed for special education funding results in additional state funding for the student. Since state special education funding parallels and is based on reporting for the federal grant, any exceptions for one of the grants may affect the other.
- *Other State and Federal Grants*
- *Property taxes*
- *Locally receipted revenues* – such as fees and fines, cafeteria charges for services, facility rentals, ASB revenues, sports camps and donations. If sports camp fees are paid to the school, it would be considered a school activity; otherwise we would expect the camp to be subject to the district's facility rental policy.

Locally receipted revenues, especially at decentralized locations, have been the most frequently cited area for inadequate accountability controls and misappropriation. **ASB activities, general funds and nutrition services** can all be at risk. Transfer of funds can also be problematic when funds go missing and there is no documentation of the transfer. Accordingly, misappropriation risks exist at both the point of original receipt and at subsequent holding

and deposit points (e.g.: ASB secretary). More specifically, frauds have been perpetrated when system weaknesses allow for unattached receipts within the software system and adequate monitoring is not in place.

Many Districts use software systems for locally collected funds that electronically interface with their Financial Management System (i.e., Skyward SMS 2.0). There is an increased risk that activity in one system is not completely captured and communicated to the Financial Management System. When gaining an understanding, auditors should be aware of this risk and inquire about reconciliation controls that ensure all transactions are properly communicated between the two systems. See the [IT Planning Guide](#) for additional information or consider the [Accountability | Revenues | Cash Receipting | Controls Over Cash Receipting with Software step in TeamStore](#).

Receipting Systems

Numerous districts use InTouch's Receipting application for receipting local revenues. Although there have been fraud cases associated with the InTouch Receipting system, the risks and issues identified in this planning guide are potential risks for **any** receipting system and are not isolated to the InTouch product. Team IT Audit has updated the InTouch Receipting application Common System Review and identified risks associated with the system. Suggested procedures and additional information are available in [Appendix 1](#).

Third Party Receipting

School districts may use third party vendors for online payments or as part of an on-site payment process. To determine if a particular district uses third parties for receipting, check their website for payment options and inquire with district personnel (typically IT staff need to be involved with the interface so they are a good place to start). We are currently aware of third party receipting activity in schools and ESDs in the following areas:

- School lunch accounts
- Food service receipting
- Student fines and fees
- Clock hour sales
- Facility rentals
- ASB fundraisers

Use the Third Party Receipting worksheet in [Accountability | Revenues | Third Party Receipting folder in TeamStore](#) to document any third party receipting activity occurring at the District.

The auditor should also ensure the District is aware of the [Best Practices: Contracting with vendors to accept or process payments](#) (third-party receipting) available to them online via the [Center for Government Innovation](#). Have questions? Contact [IT Audit](#).

Expenditures

Credit cards are an area where we are seeing fraud trends increase. Inadequate segregation of duties increases the risk that disbursements may be made without adequate supporting documentation and/or approval and may not be for a public purpose. Risks to consider include: Is someone independent reviewing all of the charges? Is the reviewer looking at the itemized receipts/invoices? Is the reviewer ensuring the purchaser is not also seeking personal reimbursement for the same items bought on the card/account?

Most software programs used by the Districts have an electronic approval process for expenditures. A TeamMate testing strategy is available at [Accountability | IT Controls | Electronic Approval](#). However, credit card payments are generally handled through alternative approval processes creating a high risk. Credit card transactions can be easily downloaded by the District from their bank account web site to support more effective audit testing. IT Audit's Data Analyst team can assist with credit card queries. Please submit a request to [IT Audit](#) approximately two-weeks prior to needing the additional queries.

Assets

Common sources of assets at risk of misappropriation or misuse include:

- *Technology equipment* – Schools will have computers, multi-media devices and other small and attractive technology equipment. Different districts have different procedures regarding inventories and controls over

this equipment and checkout procedures for shared equipment. Depending on whether there are centralized controls or not, different schools within the same district may have widely varying procedures and controls. Proper inventory of technology is the top priority of controls for many Cyber Security Standards such as Center for Internet Security and National Institute of Standards and Technology (NIST). See also [Appendix 2 – Covid Activities](#).

- *Small and attractive assets* – In addition to technology equipment, small and attractive assets include office equipment, maintenance equipment and supplies, sports equipment, and school materials and supplies. Other types of school program-related assets will vary depending on the types of classes or programs offered (ie: vocational-type classes).
- *Vehicles* – Districts may own vehicles other than buses which are used by administrative staff or for drivers' education programs. Vehicles should be clearly marked as belonging to the district (RCW 46.08.065) and be used only for district purposes.

Compliance Requirements

General compliance requirements apply to school districts, including Open Public Meetings Act, expenditure audit and certification, conflict of interest, insurance / bonding requirements, limitation of indebtedness, authorized investments and budgeting.

Other compliance requirements and risks to be aware of are as follows:

- *Apportionment* – See discussion [above](#) for compliance issues related to apportionment.
- *Bid Compliance* – Districts are required to bid for public works and purchases of goods and services, including books, if federal funds were used. See the [Bid Law Guide](#) for details. Some special risks to consider in this area are:
 - Properly Consolidating Purchases (Like-Kind Items) – Districts should consolidate purchases on a district-wide basis before determining whether bidding requirements apply. This can be difficult when purchases are initiated at the building level. For example, there is often a contract that covers most food items, or one for food products and one for dairy products. The auditor should evaluate if the district complied with bid laws and be aware that the district might separate food into categories (meat, vegetables, breads, etc.). School districts may not intentionally split the procurement to fall below the small purchase threshold and to avoid the formal procurement method.
 - Piggy-Backing on bids made by other districts without meeting piggy-backing requirements (see bid law guide for details) - In 2019, RCW 39.34.030 was amended to allow any public agency to utilize the bid of another **public agency** for its own purposes *if the awarding agency met its own bid law requirements*.

Details on how to audit piggybacking on contracts that were entered into AFTER July 28, 2019 can be found in both the Bid Law Guide and the updated testing strategies.

Several purchasing cooperatives are considered public agencies. Additionally, some purchasing cooperatives use a "lead agency" when soliciting bids for contracts. If the "lead agency" meets the definition of public agency, the local government can rely on the process outlined above. If a purchasing cooperative is not a public agency then we would continue to expect the local government do their due diligence to determine and demonstrate all applicable state and federal laws and local policies have been met.

Since KCDA and DES are considered public agencies, we would expect local governments to have controls in place to ensure KCDA and DES met their own bid law requirements and that the bid was posted online prior to using these contracts.

For purchases made with federal funds the local government must ensure compliance with any and all federal procurement requirements. Additionally if the governing body of any local

government has implemented any additional, more restrictive purchasing requirements those would need to be followed.

- *Contract Limits* – RCW 28A.335.170 sets term limits for certain contracts:
 - To rent or lease building space and portable buildings for periods not exceeding 10 years in duration;
 - To rent security systems, computers, and other equipment or to have maintained and repaired security systems, computers, and other equipment for periods not exceeding 5 years in duration; and
 - To provide pupil transportation services for periods not exceeding 5 years in duration
- *Restricted Funds* - Restricted funds at a school district may include unspent bond proceeds, ASB funds, transportation vehicle funds, grants, donations for specific purposes and Student Achievement (I-728) funds.

Self-Insurance

RCW 43.09.260(1) and Audit Policy 1210 require an examination of all individual health and welfare programs and local government self-insurance programs at least once every two years. Self-Insurance will need to be included in every audit for those on a 2 or 3-year cycle. Self-insurance is a risk management approach in which a school district sets aside funds as a protection against a probable loss instead purchasing an insurance policy. Self-insurance activities include:

- Workers' compensation and unemployment claims for which the district pays on a 'reimbursable' basis
- (Prior to January 1, 2020) Health and welfare benefits (medical, dental, vision, prescriptions) that are not purchased through an insurance policy or a risk pool
- Setting funds aside for the purpose of paying property or liability claims that are not covered by an insurance policy or a risk pool
- ESD non-risk sharing Unemployment Compensation pools

Not all school districts are aware they are self-insuring. To help evaluate whether a district self-insures, auditors should inquire of the district regarding their risk management activities using the [TM workpaper "Self-Insurance Assessment"](#) located in the [Accountability | Entity Specific Areas | Schools | Self Insurance](#) folder.

As of January 1, 2020 Washington State established the School Employees Benefits Board that administers health insurance and other benefits to schools districts, charter schools and union represented employees of ESDs. Once this program became effective, the school districts lost their regulatory authority to self-insure for health and welfare programs. If a program is identified, use the testing strategy at [Accountability | Entity Specific Areas | Schools | Self Insurance](#) to address any specific risks.

Patch Management

School Districts have suffered a significant increase in cyber incidents such as breaches and ransomware attacks. Patch management is a front-line defense to ensure operational systems, as well as financial systems, remain strong against known and potential vulnerabilities. Team IT Audit has tested Patch and Change Management at WSIPC without concern; however, WSIPC is only responsible for the Skyward SMS 2.0 and Skyward QMLATIV financial and student management systems. WSIPC is not responsible for any financial or student data downloaded from the systems, District network servers, nor any third-party systems that may, or may not, interface with Skyward, Inc.'s products. [A testing strategy is available in TeamMate at Accountability | IT Controls | Patch Management over Student Management data.](#)

Data Backup and Recovery

Districts are responsible for a significant amount of confidential and private data subject to FERPA laws, especially in the Student Management modules. Data Backup & Recovery practices can help ensure continued operation in event of a disaster or incident. Team IT Audit has tested Data Backup & Recovery at WSIPC and have established District Specific inquiries at the [QMLATIV Common System Review](#) (applicable to Skyward SMS 2.0 users as well). WSIPC is only responsible for the Skyward SMS 2.0 and Skyward QMLATIV financial and student management systems. WSIPC is not responsible for any financial or student data downloaded from the systems, District network servers, nor any third-party systems that may, or may not, interface with Skyward, Inc.'s products. Consider [Accountability | IT Controls | User Access and Data Backup and Recovery testing strategies](#) over Student Management data.

FINANCIAL STATEMENTS

[The Accounting Manual](#) for Public School Districts specifies financial reporting requirements for school districts and designates the F-196 report as the minimum required financial statement report from districts to OSPI. The F-196 is considered a regulatory-basis presentation. For audit purposes, districts may prepare GAAP financial statements or use the F-196 statements, which may be either a modified-accrual presentation or, for districts with enrollment of less than 1,000 FTE, a cash basis presentation.

[The template notes to the financial statements](#) are contained in the ABFR Guidance available on OSPI's website. Example notes presented in the ABFR Guidance are considered the minimum requirement for disclosure, as applicable. Since the basis of accounting is other than GAAP, these differences must be disclosed in Note 1 (see additional information below). Additional disclosures may also be required for unique facts and circumstances.

F-196 process

Due to timing of information available for school districts to submit their F-196 to OSPI, **we expect to receive the final F-196s around the end of December / beginning of January.**

Financial Statement Audit Approach

Our primary test when auditing both modified accrual and cash basis F-196 financial statements is to tie financial statements to the County F-197 treasurer's report. Additional tests that are not covered by the comparison to the county treasurer (such as for classification of expenditures, inaccurate accruals, unallowable shifting of restricted funds, etc.) are added based on risks identified in planning procedures. Auditors should also be aware that the F-197 contains information from the county treasurer report, but is not actually the county treasurer report. This means that there is potential that data was not entered correctly into the F-197 report, since this data is entered manually by the local ESD.

Districts have been encouraged to create and use their own reconciliations. If a district has chosen not to prepare a reconciliation, make a recommendation that they complete these in the future; however, do not ask them to prepare one for you. Our audit, especially as it relates to controls, needs to be focused on what is available when field work begins.

As soon as data becomes available electronically, pre-filled reconciliation spreadsheets will be compiled and made available in the EIS "Data" tab. We will announce when this data becomes available centrally (expected mid January). Until that time, auditors can manually fill in the F-196 and F-197 information from source documents available from the district using the blank template available in TeamMate.

GAAP reporting changes

All new GASBs are identified and evaluated by the Financial Audit Committee (FAC), as summarized on the [GASB Tracker](#) available on the FAC Sharepoint page. When evaluating implementation of new GASBs for school districts, auditors should specifically consider:

- ***GASB 87*** (Leases) effective beginning with the 2021-2022 school year and impact both modified accrual and cash basis school districts. Schools who report on the modified accrual basis must calculate the present value of remaining lease payments, using a discount rate to determine interest/principal components. The new requirements apply retroactively, which means districts will need to evaluate not just current leases but also those existing (older) leases in place before the 2021-2022 school year began. While the new leases requirements apply retro-actively to existing leases, existing leases should be measured as of the beginning of the implementation year (09/01/2021), not at the time when the lease actually started. [A TeamMate testing strategy workpaper is available in School F196 Statements | Review Presentation & Disclosure | Implementation of Accounting Changes 2022.](#)
- ***GASB 84*** (Fiduciary Activities, original implementation effective FYE 2019, new implementation effective FYE 2021) is expected to have an impact on school districts and require re-evaluation and changes to reporting for fiduciary activities. [A TeamMate testing strategy is available in Financial Statement | School F-196 Statements | Review Presentation & Disclosure | Implementation of Accounting Changes 2021.](#)

GASB 95, issued May 8, 2020, delayed the implementation date of certain new standards. The school district accounting manual has applied these new implementation dates.

Deposit Arrangements with Educational Service Districts (ESDs)

Many school districts deposit money with their regional ESD to fund future compensated absences, unemployment and workers compensation liabilities. The ESDs may refer to these activities as “risk pools” rather than claims servicing pools (sometimes called “banking model” pools); however, some of these activities may not be risk pools (as defined by GASB 10), because the risk of future loss/liability remains with the district.

SAO has previously reviewed the deposit arrangement agreements between the ESDs and school districts and determined the classification of each ESD pool for financial reporting purposes. Inquiries should be made as some ESDs are moving towards a true “risk pool” and may have made changes to their contracts for the year under audit. The following table contains SAO’s current determination of the type of risk pool.

	Unemployment	Workers Comp	Compensated Absences
ESD 101	Risk Sharing	Risk Sharing	Claims Servicing
ESD 105	Claims Servicing	Risk Sharing	N/A
ESD 112	Risk Sharing	Risk Sharing	N/A
ESD 113	Risk Sharing	Risk Sharing	Claims Servicing
ESD 114	Risk Sharing	Risk Sharing	Claims Servicing
ESD 121	Risk Sharing	Risk Sharing	Claims Servicing
ESD 123	Risk Sharing	Risk Sharing	Claims Servicing
ESD 171	Risk Sharing	Risk Sharing	Claims Servicing
ESD 189	Risk Sharing	N/A	Claims Servicing

Auditors should inquire whether any changes or amendments to these agreements were made for the audit period, and contact Cheryl Thresher, Team School Programs Audit Manager if any changes are identified.

For districts who deposit funds with their ESD in “claims servicing” pools, there is the potential risk districts are not recording (1) cash deposited with the ESDs as “cash on deposit with a trustee” , (2) related liabilities, and (3) are over-reporting expenditures. Auditors should use the “[ESD Deposits](#)” testing strategy in the [School F-196 Statements | Review Presentation & Disclosure folder](#) in TeamStore when auditing this area.

Note 1 – Reporting Entity (for modified accrual and cash basis districts)

In the Notes to the Financial Statements, Note 1 describes the specific differences between GAAP and the School District Accounting Manual. Our opinion on the financial statements (in accordance with the Accounting Manual) incorporates this note. Therefore, auditors must ensure the differences in accounting practices between GAAP and the Accounting Manual are accurately described in Note 1. The Note 1 included in [the template Notes to the Financial Statements](#) provided by OSPI includes the critical elements/differences between the Accounting Manual and GAAP and we should recommend districts use that information when preparing their financial statement note disclosures.

Financial Statement Audit Reports

For schools that prepare financial statements on a cash or modified accrual basis of accounting, which is allowed by Washington State laws and the accounting manual prescribed by our Office and the Office of Superintendent of Public Instruction, audit reports will continue to have our standard paragraph issuing an unmodified opinion on those financial statements.

In addition to this opinion, standards require us to formally acknowledge when government entities do not prepare their financial statements in accordance with GAAP. Modified Accrual school districts report on a regulatory basis in Washington State, this reporting does not include government-wide statements. The omission of the government-wide statements is a significant departure from GAAP, which does not permit an unmodified opinion in accordance with GAAP.

Our audit reports will issue an adverse opinion in accordance with GAAP for modified accrual school districts. Cash basis school districts will continue to receive an adverse GAAP opinion.

We would expect school districts to follow the accounting guidance prescribed by the School District Accounting Manual. Differences between the accounting practices prescribed by GAAP and the schools manual exist, and the significant differences should be reported in the notes to the financial statements (Note 1).

Contact [Ryan Montgomery](#) or [Brandon Tecca](#) with questions.

Changes to the F-196 Statements

If a district needs to correct its F-196, it **must** contact OSPI

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OSPI will provide the word document and instructions needed to make corrections, which must be submitted to OSPI.

FEDERAL AWARDS

Schools file their SEFA's through online filing. Auditors must obtain the SEFA and Notes through LGCS reporting and not from the District directly. This process will help ensure SEFAs are correctly presented. Refer to the Single Audit Planning SEFA procedure step for additional information. As noted in the SEFA procedure step, verify with the District this is the final version before proceeding with vouching the SEFA.

Low Risk Auditee Status

ALL school districts are **eligible** to qualify for "low risk" status under the Federal Uniform Guidance.

Under the Federal Uniform Guidance, government agencies that do not report GAAP financial statements, and that are not required to use a regulatory basis by state law, do not qualify as "low risk" auditees for single audit purposes. Therefore, school districts who report under modified accrual or cash basis *were* at risk of losing their "low risk" status.

Our office worked with OSPI to develop changes to OSPI's accounting manual to clarify that school districts are required to report the F-196 financial statements (a regulatory basis of accounting). The U.S. Department of Health and Human Services (DHHS), Office of Inspector General (OIG) and the U. S. Department of Education reviewed/approved the changes allowing all school districts in Washington to meet this particular requirement for "low risk" auditee status.

Note: There are other requirements that must be met to determine "low risk" status, so auditors should continue to complete all parts of the [Low-Risk Auditee Status planning step in TeamMate](#).

Changes to Schools Programs for Fiscal Year 2022 Audits

The custom audit programs for commonly audited federal programs in schools have been updated, including:

- Child Nutrition Cluster
- Special Education Cluster (IDEA)
- Title I, Part A
- Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Securities Act

Please read the testing strategies.

Child Nutrition Cluster (10.553/555/556/559/582)

The 2022 Compliance Supplement added a program to and deleted a program from the Child Nutrition Cluster (CNC). The Child Nutrition Discretionary Grants Limited Availability program, Assistance Listing Number (ALN, formerly referred to as CFDA) 10.579, was **deleted** from and the Fresh Fruits and Vegetable Program (FFVP), ALN 10.582, was **added** to the CNC. **CAUTION:** *When performing risk assessments and determining major programs, refer to the guidance in the testing strategy when a new program is added to a cluster. There are special instructions for the "two-year look back" requirement.*

Note that unlike the other programs in the CNC that are performance funded (fixed amount award), the FFVP is on a cash reimbursement basis (actual costs). Therefore, if the auditee spent funds under this program, the auditor will need to determine if costs charged to this program in the cluster are direct and material. See the overview and compliance requirements testing strategy for guidance.

Compliance Requirements Subject to Audit

Cash Management and Program Income changed from a "Y" to a "N" and Reporting changed from a "N" to a "Y". See the overview and compliance requirements testing strategy for guidance and for information on CNC waivers.

COVID-19 funding

Per OSPI, the CNC was **not** funded with COVID-19 federal financial assistance during FY2022. If districts are adding COVID-19 as a prefix to the program name, this is an error that must be corrected.

Eligibility, Verification, and Paid Lunch Equity (PLE) Requirements

For the 2021-2022 school year, Districts had the choice to operate the National School Lunch Seamless Summer Option (SSO), in which all students are eligible for free meals (no eligibility determinations), or the National School Lunch Program (NSLP) with normal eligibility determinations. According to OSPI, most Districts chose to operate SSO. If the CNC is selected as a major program, eligibility, verification, and PLE will only be applicable if the District operated the NSLP (regular pricing program).

Team IT Audit has not conducted any testing over nutrition eligibility for neither the Skyward SMS 2.0 or QMLATIV nutrition products for the 2021-2022 school year. If applicable, auditors should use the [TeamMate testing strategy at Permanent File | IT Control Testing | IT Control Testing – Software Calculation](#).

Special Education Cluster (84.027 and 84.173)

There were no significant changes to program requirements. However, the SPED Cluster **did** receive COVID-19 funding under the American Rescue Plan Act (ARPA).

For districts that use either the Skyward SMS 2.0 or QMLATIV HR/Payroll modules to determine cost allocation, there is a centralized testing of the automated control. There is no centralized testing for districts that use another system for payroll. For systems other than Skyward, Inc. payroll products, auditors should use the [TeamMate testing strategy at Permanent File | IT Control Testing | IT Control Testing – Software Calculation](#).

Title I, Part A (84.010)

There were no significant changes to program requirements. Title I, Part A **did not** receive any COVID-19 funding.

For districts that use either the Skyward SMS 2.0 or QMLATIV HR/Payroll modules to determine cost allocation, there is a centralized testing of the automated control. There is no centralized testing for Districts that use another system for payroll. For systems other than Skyward, Inc. payroll products, auditors should use the [TeamMate testing strategy at Permanent File | IT Control Testing | IT Control Testing – Software Calculation](#).

Education Stabilization Fund (84.425)

ESF is not a cluster, it is a single program. For major program purposes, auditors must evaluate 84.425 in its entirety. ESF is unique in that it includes 23 subprograms, each identified by a corresponding alpha character. Each subprogram is funded by different COVID-19 related Acts and has its own unique compliance requirements. Therefore, Districts **must** track expenditures under each of the subprograms and its awards separately. District **must** identify the individual subprograms on the SEFA by including the ALN and corresponding alpha character in the "other award number" column. Auditors should refer to the [ABFR Manual SEFA instructions](#) for proper SEFA reporting of this program.

Per OSPI, the majority of funding it subawarded to districts was the subprograms Elementary and Secondary Emergency Relief (ESSER I & II, **84.425D**) Fund and American Rescue Plan – ESSER (ESSER III, **84.425U**). Some districts also applied for and received funds under the American Rescue Plan – ESSER – Homeless Children and Youth (HCY I & II, **84.425W**). These are the only subprograms we should expect to see reported on the SEFA.

This program is 100% funding with COVID-19 federal financial assistance and was designated as a “higher risk” program, which means that federal agencies consider the inherent risk to be “high” and placed a higher priority on these programs for a risk-based audit.

PERFORMANCE AUDITS

Information on ongoing performance audits can be found on SAO website at: <https://www.sao.wa.gov/performance-audits/performance-audits-in-progress>. For all other inquiries please contact the Assistant Director for Performance Audit.

APPENDIX 1 - InTouch Receipting System

Although there have been fraud cases at multiple districts using the InTouch Receipting system the risks and issues identified in this planning guide are potential features and risks for **any** receipting system at any entity and are not isolated to the InTouch product. Team IT Audit has worked with the Fraud Specialists and the vendor, InTouch Receipting (formerly referred to as HD Baker), to compile some information over the InTouch Receipting application specifically.

Team IT Audit's System Auditors performed further inquiries with InTouch regarding PCI compliance, COVID-19 pandemic impacts, as well as report availability. The work is documented in the Teammate file ITAudit Central Audit C1-ITACentral-SP20, at H.1.PRG InTouch_CSR.

Interfacing

InTouch is a separate receipting system and therefore information initially captured in InTouch must be communicated to the Financial Management Software (i.e. Skyward). Districts have the option to use the *Revenue Summary by Account* report to manually input receipting activity into their general ledger or use the electronic interface. Both Skyward, Inc. products and BusinessPlus accept *End of Process* electronic feeds (i.e. ending summary totals) into their general ledger system.

Risk: Not all the transactions within InTouch are flagged to be moved over to the general ledger. Districts must have controls to reconcile the general ledger to submodules as well as to the bank. As part of cash receipting work auditors should determine if districts have controls to reconcile the general ledger to all transactions in InTouch. Controls may include use of the following reports:

- **Non-Reconciled:** All receipts in a particular batch that have not yet been attached to a deposit.
- **Missing in InTouch:** Transactions that appear in Touchbase (online payment portal for InTouch) but not in InTouch, if applicable.

'Not in System' Accounts

When cashiers are accepting payments for various fines and fees (i.e. ASB card, sports fees) they are required to enter in Student ID numbers to link the fees a specific student account. Cashiers do have an option to use a 'Not in System' (NIS) account in lieu of an actual student number.

The intention of the 'Not in System' feature is to permit cashiers to receipt in money for fees/fines for students prior to when a new student account is established from the nightly batching interfacing from the Student Management module to the InTouch system.

Risk: Cashiers don't re-assign the NIS account transactions to the correct student account. Management can monitor the use of NIS accounts by ensuring reports from InTouch include all active and non-active accounts. We would expect NIS accounts to be used very infrequently. As part of cash receipting work auditors should determine if the district has controls to monitor that all NIS account transactions are timely re-assigned to a valid student account.

Password Configurations

During the initial implementation of InTouch, districts are provided with parameters for passwords into the module. InTouch uses the parameters selected by the district to create the parameters for passwords. These parameters are only visible to InTouch, but the district may request to alter the parameters at any time by contacting InTouch.

**Further system criteria details are available in the Teammate file.*

When users forget passwords the district's InTouch Administrative User has the ability to login into their administrative account, unlock the user and reset the password which will prompt the user to change their password upon logging in.

Risk: Districts may not recall, nor evaluate, the password parameters to determine if they still meet the district's policies and/or best practices. Auditors should consider the following when reviewing this area:

- Have the district request their password parameters from their InTouch support contact.
- Evaluate the user authentication to expectations using the [Accountability | IT Controls | User Access testing strategy](#).

COVID19 Refunding

InTouch offered some facilities to process receipts on behalf of the district. The refund process was pretty simple in design (district option): what item(s) need to be refunded, how much should the refund be, how much should be 'waived or adjusted' on assessed fees and how the refund would be executed. Options for executing the refund included: (1) ran as an InTouch 'refund' to A/P which marks the item as 'refunded' and the district cuts an A/P check, (2) if the original purchase was made via a credit card, then InTouch could apply the refund against the original form of payment, and/or (3) refund to a student's 'on account' balance which could be used later.

Risk: Districts may have utilized InTouch's services without retaining proper documentation. As part of cash receipting work auditors should determine if the district utilized InTouch for refunds and if the district had controls to monitor and verify documentation.

COVID19 Third Party Fundraising

InTouch also setup many online fundraisers where TouchBase (InTouch's online payment platform) collected and recorded the money so that there was no direct contact during fundraising sales, such as plant sales. This area may be 'new' to the district if they did not already utilize TouchBase for other receipting functions (i.e. lunch, other fundraisers).

Risk: The district may not have proper contracts, documentations or controls over third party receipting, especially if initiated due to the pandemic.

A testing strategy is available in TeamMate at [Accountability | Revenues | Third Party Receipting](#).

APPENDIX 2 - COVID Activities

Beginning in spring of 2020, schools throughout the state were impacted by COVID-19. Schools were closed in [March 2020](#) and districts began moving to remote learning activities which continued through the 2020-2021 school year. By spring 2021, many districts had moved back to in-person learning with a [full return available for the 2021-2022 school year](#). Impacts to districts are expected to vary across the state due to varying student populations and geographic factors. We see the following impacts for 2019-2020, 2020-2021, and 2021-2022 audits:

- Allowable Expenditures: With the closure of school buildings, districts continued to operate food service programs and provide support for their communities. Many districts engaged in activities and incurred related costs unlike previous school years including; donating services/supplies to healthcare agencies, using vehicles to distribute meals and other instructional materials, issuing laptops and other instructional equipment to students.

OSPI provided [guidance](#) addressing certain situations and COVID-19 costs. However, we would expect districts to have retained support for any unique costs related COVID-19 and have implemented controls to ensure district funds were not gifted or used for clearly unallowable purposes.

- Enrollment: The primary driver of funding for schools is their student enrollment. OSPI [revised the enrollment reporting requirements](#) for schools due to the closure in March – June 2020. Enrollment counts were based on February 2020 actual student counts, with adjustment rates to determine enrollment reported for March – June 2020.
- Expenditure Tracking: Schools were directed in March 2020 to track COVID-19 costs using their own internal process such as creating a sub-program in Program 97, or unique department code. OSPI provided further [accounting guidance](#) to track/identify COVID-19 expenditures.
- Remote Learning: School closures ended traditional in-person instruction, recreational, and other programs using school buildings and facilities. Districts were directed to resume educational services by March 30th, 2020 using varying remote learning methods. Schools continued to use remote learning and hybrid models for the 2020-2021 school year.
- Resources: OSPI developed a [COVID-19 site](#) aggregating all of the communications/resources for schools districts. Including information on enrollment reporting, remote learning, and reopening guidance.
- Staffing: Districts across the state have been impacted by bus driver, substitute, and other staff shortages. In Sept. 2021, OSPI provided [guidance](#) to schools on how to address these issues, including the use of different funding sources to mitigate them (see also [ELL](#)).
- Supplies: Districts also experienced supply chain challenges impacting food service programs. Some schools received [federal funds](#) to assist in meeting these challenges.