



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Issaquah School District No. 411

For the period September 1, 2021 through August 31, 2022

Published February 20, 2024

Report No. 1034306



Scan to see another great way
we're helping advance
#GoodGovernment



**Office of the Washington State Auditor
Pat McCarthy**

February 20, 2024

Board of Directors
Issaquah School District No. 411
Issaquah, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

| | |
|---|----|
| Audit Results..... | 4 |
| Schedule of Audit Findings and Responses..... | 5 |
| Related Reports..... | 11 |
| Information about the District..... | 12 |
| About the State Auditor's Office..... | 13 |

AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the District could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of Issaquah School District No. 411 from September 1, 2021 through August 31, 2022.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the District's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended August 31, 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Use of restricted funds – bond proceeds and excess taxes levy
- Use of restricted funds – professional learning and local revenue for enrichment activities
- Compliance with supplemental contracts for enrichment activities
- Accounts payable – credit cards
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Issaquah School District No. 411 September 1, 2021 through August 31, 2022

2022-001 The District did not have adequate internal controls in place to ensure it complied with state law and used bond funds only for their intended purpose.

Background

In 2012, the District issued general obligation bonds totaling \$219,121,500 intended for certain capital improvements. As adopted in Resolution No. 997, projects included the modernization of curricular and athletic fields, modernization of high school stadium facilities, and facility improvements, renovations, and modernizations at specific elementary, middle and high schools.

In 2016, the District issued additional general obligation bonds totaling \$533,500,000 intended for certain capital projects. As adopted in Resolution No. 1063, projects included the construction of a new high school, middle school and two elementary schools, as well as capital improvements such as facility and technology modernizations at specific elementary, middle and high schools.

State law (RCW 28A.530.010) allows school districts to issue bonds for the purpose of funding capital projects. Additionally, state law (RCW 28A.530.020) requires school districts to include the specific purpose of the bond in the resolution adopted by the board of directors. It also requires school districts to conduct a public hearing and adopt a new resolution or amend the original resolution if changes to the bond's specific purpose and expenditures are necessary.

Management is responsible for designing, implementing and maintaining internal controls to ensure the District only uses bond funds for their intended purpose. A lack of or inadequate internal controls can hinder the District's ability to comply with state laws for bonds.

Description of Condition

The District did not have adequate internal controls to monitor, manage and ensure capital project expenditures were paid by the appropriate bond funding sources. During our examination of capital projects paid by the 2012 and 2016 bonds, we found the District used the bonds to pay for capital projects that were not approved and included in the bonds' specific purpose as adopted in Resolution No. 997 and No. 1063.

Cause of Condition

Payments for capital project expenditures were processed weekly and paid with funds available from the oldest to the newest bond accounts, regardless of whether they were approved projects for the paying bond. The District used budget reports to track capital expenditures, but they were not detailed enough for management and staff to monitor original capital budgets, project estimates, and adjustments over expenditures of bond proceeds.

Effect of Condition

Our audit found the following:

- The District used \$4,872,908 of the 2012 bond proceeds for three capital projects that were outside the scope of the bond resolution. These payments included rebuilding two elementary schools, and creating a high school.
- The 2012 bond proceeds were \$1,309,740 more than the total capital project payments tracked by the District. We were unable to determine if the additional proceeds were used for any projects specified in the voter-approved bond resolution.
- The District used \$46,258,909 of the 2016 bond proceeds for 22 capital projects that were outside the scope of the bond resolution. These payments were for a middle school rebuild, high school addition and modernization, high school stadium, elementary school rebuild, early learning center remodel, and other projects outside of the bond resolution.

Without effective internal controls over the spending of bond proceeds, the District cannot ensure proper stewardship of public funds.

Recommendation

We recommend the District implement adequate monitoring and tracking controls over the spending of bond proceeds to ensure they are only used to pay for approved capital projects that are specified in adopted resolutions. This should include monitoring how and when bond proceeds are spent and ensuring that the drawdown of bond proceeds is planned and documented.

Additionally, when bonds' specific purposes are changed and additional expenditures are necessary, we recommend the District comply with state law by conducting a public hearing to adopt a new resolution or amend the original resolution.

District's Response

We appreciate the work of SAO on this year's audit and the opportunity to submit this response. After we notified the SAO of our concern regarding previous use of some bond funds that were expended outside the scope of the applicable bond resolutions, we undertook a host of improvements to strengthen financial oversight and compliance. We welcome any additional feedback from the SAO as we continue to improve our financial systems.

As part of the transition work of a new administrative team, and in anticipation for upcoming major projects including a new high school, the district conducted a review of capital project fund spending. During this internal review of capital expenditures, the district identified capital project bond funds that were expended for older capital projects outside of the scope of the 2016 governing board bond resolution. The district also began reviewing 2012 bond expenditures but determined it was necessary at that point to turn the matter over to the Washington State Auditor's Office (SAO). In January 2023, the district proactively notified SAO of the results of this review, the probable noncompliance issue, and offered our full cooperation with the pending audit. The findings of the audit report substantially align with our internal review of the 2016 bond and also extend to the 2012 bond.

The district's continued work on the internal review determined one project totaling \$3,006,038 of 2012 bond payments was outside of the 2012 bond resolution's intended scope. SAO's finding indicates two additional projects totaling \$101,338 and \$1,765,532 were also outside of the scope of the board resolution, a conclusion that is inconsistent with our review. For the 2016 bond, the district's review determined that \$45.46 million was incorrectly used outside of the bond resolution's intended scope. This differs from the audit finding amount of \$46.26 million and is attributed to a difference in opinion regarding partially compliant projects. Ultimately, the district's review included all 2012 and 2016

bond fund expenditures and concluded that all payments were accounted for and used for otherwise approved capital projects.

In their report, SAO also noted \$1,309,740 in 2012 bond payments that were not specifically allocated to projects. Our internal review confirmed that these payments were indeed used for capital projects, and we have shared this information with the audit team. However, the documentation provided did not enable the auditors to verify if the projects were within the 2012 bond resolution's intended scope. We believe the auditors understand that the funds were allocated to capital projects, though some expenditures may not have been within the scope of the board's resolution. Importantly, there is no evidence of any misappropriated or missing funds.

The district agrees with SAO regarding the previous inadequacy of internal controls for monitoring, managing, and ensuring compliance with the use of capital funds. Consequently, the district began taking significant steps as early as the Fall of 2022 to enhance the financial management and oversight of the capital projects fund, ensuring adherence to legal standards and diligent stewardship of public resources. These improvements include expanding financial responsibilities previously concentrated under only one position and assigning these tasks among multiple trained staff members. This empowers more trained individuals to quality check and bring forward any possible indications of noncompliance. Specifically, the district has taken the following significant steps to improve financial oversight and compliance:

Staffing Changes

In addition to crucial role changes, we have strengthened our internal control framework by adding a Controller and Capital Projects Accountant to our team. The Controller position was added to strengthen overall financial internal controls and provide additional oversight for capital projects fund compliance. The Capital Projects Accountant position is specifically tasked with overseeing the financial management of capital projects, ensuring that expenditures align with the approved purposes of the bond funds.

Enhanced Reporting

Beginning in July 2022, monthly budget status reports were revised to offer timely and straightforward updates on our financial position and the use of bond funds. This ensures that our board of directors, superintendent, staff, and the community are well-informed about our financial management practices and the status of capital projects.

To further improve transparency and accountability, we have added more detailed capital project information to our website, issue a monthly project status memorandum to the superintendent, and provide Capital Projects Department

updates during regular Board of Directors meetings and regular updates to the superintendent. These reports offer comprehensive insights into the allocation and use of bond funds, allowing stakeholders to track progress and financial management of capital projects more effectively.

Checks and Balances

To prevent the concentration of financial management responsibilities and provide for internal checks and balances, we have assigned duties and reconciliation tasks related to the Capital Projects Fund among several staff members. Recognizing the risk associated with having all responsibility for the Capital Projects Fund concentrated in one position, we have made organizational changes to decentralize this responsibility. This ensures that the management of bond funds involves multiple layers of oversight, further safeguarding against any potential misuse.

Ongoing Professional Development and Training

Understanding the importance of continuous improvement, the district has committed to ongoing professional development and training for staff involved in the management and oversight of capital projects, including offerings from the Washington Association of School Business Officials, individual instruction from expert consultants, in-house developed trainings, and peer district shared learning. Our goal is to ensure that staff remain well-equipped with the knowledge and skills necessary to manage public funds effectively and efficiently and in compliance with applicable laws.

Establishment of Future Bond Oversight Committee

In addition to the steps already taken to strengthen our financial oversight and compliance, the district intends to further enhance transparency and accountability for future bond projects by establishing a Bond Oversight Committee. This committee will be composed of community members, financial experts, and other stakeholders, tasked with the oversight of bond funds and ensuring that all expenditures are in accordance with voter-approved projects. The committee will regularly review project progress, financial reports, and compliance with bond covenants, providing an additional layer of assurance to the community that bond funds are being managed responsibly. Meetings of the Bond Oversight Committee will be open to the public, and its findings and recommendations will be reported to the Board of Directors and shared with the community. This proactive approach not only strengthens our governance structure for future capital projects but also fosters a deeper sense of community involvement and trust in how public funds are allocated and utilized.

These actions demonstrate our commitment to rectifying the identified issues and our dedication to ensuring the highest standards of financial management and accountability. We understand the importance of proper stewardship of public

funds, especially those entrusted to us for the critical purpose of enhancing our educational facilities. We are confident that these measures will address the concerns raised by our internal review and the audit and also strengthen our overall financial management practices moving forward.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 28A.530 – District Bonds for Land, Buildings, and Equipment

RCW 28A.530.010 – Directors may borrow money, issue bonds.

RCW 28A.530.020 – Bond issuance, Election, Resolution to specify purposes.

RELATED REPORTS

Financial

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes a federal finding regarding computers purchased using the Emergency Connectivity program funds. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Issaquah School District No. 411 is an urban school district that serves approximately 18,600 students in kindergarten through 12th grade in the foothills of the Cascade Mountains. The District operates three comprehensive high schools, one innovative public high school, six middle schools and 16 elementary schools. It also operates the educational section at the state's Echo Glen Children's Center in Snoqualmie.

An elected, five-member Board of Directors governs the District. The Board appoints a Superintendent to oversee the District's daily operations as well as its approximately 3,000 employees. For fiscal year 2022, the District operated on an annual budget of approximately \$353 million.

Contact information related to this report

| | |
|------------|--|
| Address: | Issaquah School District No. 411 5150 220th Avenue S.E. Issaquah, WA 98029 |
| Contact: | Cindy Feng, Controller |
| Telephone: | (425) 837-7139 |
| Website: | https://www.isd411.org/ |

Information current as of report publish date.

Audit history

You can find current and past audit reports for Issaquah School District No. 411 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov