

Performance Audit Report

School Districts' Administration and Support Services

Edmonds, Evergreen, Federal Way, Kent, Lake Washington,
Puyallup, Seattle, Spokane, Tacoma and Vancouver

Report No. 1000013



September 30, 2008



Washington State Auditor Brian Sonntag, CGFM

www.sao.wa.gov

A letter from State Auditor Brian Sonntag



Brian Sonntag, CGFM
Washington State Auditor

When voters gave our Office performance audit authority in November 2005, we started conducting outreach with citizens to find out their priorities for performance audit. Not surprisingly, K-12 education was, and continues to be, one of the top three areas of interest for citizens.

For this audit, we selected the 10 largest school districts, based on their reported student enrollment for fiscal year 2005. We reviewed the administrative and overhead operations of the districts for fiscal years 2004 through 2006. The audit work was conducted by a private firm, Cotton & Co., with oversight from our Office.

This audit was designed to identify ways to increase administrative efficiencies to free up resources for school districts. It worked: this audit identifies \$54 million in cost savings over five years that school districts can use in areas of need, such as deferred building maintenance backlogs or school programs.

We also make recommendations for addressing statewide issues to the Office of the Superintendent of Public Instruction, the primary agency charged with overseeing K-12 education in Washington, the state Legislature and the Educational Service Districts, which exist to provide support services to school districts.

If you are interested in following up on the audit resolution or public hearings, please check our Web site at: http://www.sao.wa.gov/PerformanceAudit/audit_reports.htm.

A handwritten signature in black ink that reads "Brian Sonntag". The signature is fluid and cursive.

About Initiative 900

Washington voters approved **Initiative 900** in November 2005, giving the State Auditor's Office the authority to conduct independent performance audits of state and local government entities on behalf of citizens to promote accountability and cost-effective uses of public resources.

I-900 directs the Office to address the following elements in each performance audit:

1. Identification of cost savings.
2. Identification of services that can be reduced or eliminated.
3. Identification of programs or services that can be transferred to the private sector.
4. Analysis of gaps or overlaps in programs or services and recommendations to correct them.
5. Feasibility of pooling auditee's information technology systems.
6. Analysis of the roles and functions of the auditee and recommendations to change or eliminate roles or functions.
7. Recommendations for statutory or regulatory changes that may be necessary for the auditee to properly carry out its functions.
8. Analysis of the auditee's performance data, performance measures and self-assessment systems.
9. Identification of best practices.

Initiative 900 provides no penalties for auditees that do not follow recommendations in performance audit reports.

The complete text of the Initiative is available at: www.sao.wa.gov/PerformanceAudit/PDFDocuments/i900.pdf.



Mission Statement

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the efficient and effective use of public resources.

About the audit

Objectives

The audit was designed to answer the following questions at the 10 largest school districts in Washington:

- How economical are each school district’s administrative operations, administrative costs, administrative salaries and administrative staffing levels? If not economical, what is the impact on costs and resources?
- How efficient are each school district’s administrative operations? If not efficient, what is the impact on cost and available resources?

Additionally, the audit addressed the nine elements contained in Initiative 900, outlined on page 2 of this summary.

Scope

We selected the 10 largest school districts, based on their reported student enrollment for fiscal year 2005. We reviewed the administrative and overhead operations of the districts for fiscal years 2004 through 2006. The audit work was conducted by a private firm, Cotton & Co., with oversight from our Office.

The complete text of Initiative 900 is available at www.sao.wa.gov/PerformanceAudit/PDFDocuments/i900.pdf.

Audit results

Audit Area	Districts	Summarized Recommendations	Financial Impact
Audit issue group 1: District operational inefficiencies and savings opportunities			
Automated Bus Routing: Three of 10 districts inefficiently manage bus routing, leading to increased labor and fuel costs.	Edmonds, Puyallup, Vancouver	The three districts should fully automate all bus routing to improve the efficiency of their student transportation. Software vendors can provide training in this area and the districts should consult other districts that are fully automated. All three districts should create a timeline for becoming fully automated.	Cost savings by district: <ul style="list-style-type: none"> • Edmonds One-year: \$395,700 Five-year: \$1,978,500 • Puyallup One-year: \$577,200 Five-year: \$2.9 million • Vancouver One-year: \$641,600 Five-year: \$3.2 million
Deferred maintenance backlog: Three of 10 districts have large backlogs of deferred maintenance, risking higher repair and/or replacement costs in the future.	Federal Way, Seattle, Lake Washington	The districts should: <ul style="list-style-type: none"> • Identify their deferred maintenance backlog, estimate a cost to clear the backlog and track their work. • Develop and follow a formal deferred maintenance plan, including a timeline to complete the work and a corresponding budget plan. • Develop and follow a formal preventive maintenance program. 	Deferred maintenance can be classified as deficit budgeting, in that spending needs accumulate. Many times the deferred maintenance projects are big-ticket items requiring considerable funding, perhaps more than a district can afford in one year.

Audit Area	Districts	Summarized Recommendations	Financial Impact
<p>Excess building capacity: Seattle has 18 percent more classrooms than students to fill them.</p>	<p>Seattle</p>	<p>Seattle should study further school closures and, if feasible, institute the closures. Seattle should also develop a new student assignment plan based on fewer buildings.</p>	<p>Seattle estimated it saved \$44 million in one-time capital expenditures and \$2.4 million per year in operating costs by closing seven buildings. Closing additional buildings can result in similar cost savings.</p>
<p>Excessive use of portables: Four of 10 school districts use too many portable classrooms, which are more expensive than buildings to maintain and operate.</p>	<p>Evergreen, Kent, Lake Washington, Puyallup</p>	<ul style="list-style-type: none"> • Evergreen should revisit its 20-year plan for reducing portables with the goal of shortening the timeline to 10 to 15 years. • Kent, Lake Washington and Puyallup should create a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms. This may take time for Evergreen and Puyallup because of their heavy portable use. 	<p>Cost savings are not quantifiable because they are dependent upon the conditions of each district and each school and must be offset initially by any costs of new construction for expanding core facilities or new schools or other relocation costs. However, portables are more costly than buildings to maintain and operate.</p>
		<p>Office of the Superintendent of Public Instruction (OSPI) should identify viable long-term alternatives to portables that are more efficient and economical to operate.</p>	
		<p>The Legislature should review the process for approving funds for planning, design, and construction of schools and determine whether the timeline could be shortened to reduce placing students in portables.</p>	
<p>Executive staffing: Seattle has 39 percent more executives, managers and supervisors per student than average for the 10 districts.</p>	<p>Seattle</p>	<p>Seattle should perform a routine analysis of staffing levels. It should identify or develop staffing level ratios used to monitor actual staffing levels and adjust those levels accordingly.</p>	<p>Seattle's higher-than-average staffing level cost the District an additional \$2.1 million (\$1.7 million in salaries for 24 people plus benefits of \$430,000). Over a five-year period, this level of staffing will cost the District an estimated \$10.5 million.</p>
<p>Human resources: Tacoma's human resource department has too many managers compared to the other nine districts.</p>	<p>Tacoma</p>	<p>Tacoma should perform a routine analysis of staffing levels to identify staffing level ratios used to monitor actual staffing levels and adjust those levels accordingly.</p>	<p>Tacoma spends an additional \$46 per full-time student, costing \$1.7 million during the 2005-2006 school year (\$1,330,000 of salary and \$345,000 of related benefits). Over five years, this costs an estimated \$8.4 million.</p>

Audit Area	Districts	Summarized Recommendations	Financial Impact
Inventory capitalization: Tacoma is spending unnecessary time tracking low-ticket equipment.	Tacoma	During the audit, we identified and shared with Tacoma a recommendation that the district should adopt Washington's capitalization threshold of \$5,000 and update Regulation 6211R to include this new threshold. The Tacoma School Board was proactive in implementing the recommendation in January 2008.	The number of items capitalized will drop from 16,500 to about 1,130. Tacoma estimates it will save 350 hours of labor annually, which equates to labor savings of \$17,000 annually, or \$85,000 over five years.
Purchasing cards: Five of the 10 school districts can achieve greater economy and efficiency through increased use of purchasing cards (i.e. credit cards).	Edmonds, Evergreen, Lake Washington, Puyallup, Vancouver	The districts should consider participating in a purchasing card program that offers a competitive rebate allowance and expand purchasing card use to optimize rebates. A recommended level would be no less than 21.5 percent of the budget for supplies.	Estimated savings per district: <ul style="list-style-type: none"> • Edmonds One-year: \$658,000 Five-year: \$3.3 million • Evergreen One-year: \$661,500 Five-year: \$3.3 million • Lake Washington One-year: \$841,700 Five-year: \$4.2 million • Puyallup One-year: \$940,000 Five-year: \$4.7 million • Vancouver One-year: \$1 million Five-year: \$5.3 million
Audit issue group 2: Statewide inefficiencies and savings opportunities			
Inefficient verification of certificated employees: State requirements for documenting and evaluating teacher experience and education are inefficient and increase school districts' administrative costs.	Legislature	The Legislature should authorize and fund the development and maintenance of a centralized repository of certificated employees' records.	The estimated 2005-2006 annual cost of verifying certificated employees at the 10 largest school districts is \$1.3 million, or \$6.5 million over five years. However, implementing a centralized repository would incur start-up costs and ongoing maintenance costs, which were unquantifiable at the time of the audit.
	OSPI	OSPI, in collaboration with the Educational Service Districts and school districts, should develop and deploy a plan to centralize the acquisition and maintenance of certificated employees' education and experience records.	
Audit issue group 3: District organizational effectiveness and controls			
Strategic planning: Four of the 10 districts lack important elements of strategic plan.	Federal Way, Kent, Puyallup, Tacoma	All four districts should develop a formal strategic plan to achieve goals and objectives. The strategic plan should contain input from the board, superintendent, administration, staff, principals, teachers, students, parents and the community. Strategic plans should be reviewed regularly.	Strategic plans align with goals and objectives, which is linked to budgeting. While cost savings are not quantifiable, strategic planning creates sound financial planning.

Audit Area	Districts	Summarized Recommendations	Financial Impact
<p>Financial management and cost analysis: School districts do not have the financial and performance information they need to determine whether certain programs are cost effective.</p>	<p>All 10 districts: School districts are not authorized to report financial information about their “business-like activities,” typically food service and student transportation.</p>	<ul style="list-style-type: none"> All of the districts should start tracking expenditures for activities and indirect costs in more detail so they have the information to assess and compare their performance in these areas to other districts and to the private sector. The Government Accounting Standards Board provides a financial statement format that would facilitate better tracking. The districts should, on their own or through a contractor, conduct periodic cost analyses of those expenses to evaluate how economic and efficient they are in those areas. 	<ul style="list-style-type: none"> Improved efficiency and economy Improved accountability to the public
	<p>OSPI, Legislature</p>	<p>We recommend that OSPI and the Legislature work together to authorize districts to use enterprise funds to create a clear picture of their direct and indirect expenses for food service and student transportation.</p>	
<p>Fund balance management: Vancouver’s lack of a fund balance management policy has resulted in a notably low fund balance.</p>	<p>Vancouver</p>	<p>Vancouver should establish and approve a formal policy to establish the unreserved fund balance that should be maintained in its general fund. The policy should provide guidance on actions the district should take if the fund balance fluctuates and a timeline for the actions.</p>	<p>Vancouver does not have the resources to meet unexpected needs, which could result in having to borrow funds and pay interest. Its long-term lack of a reasonable fund balance could adversely affect its bond rating, costing the district and its taxpayers high interest on bonds.</p>
<p>Internal auditor function: School districts do not fully use internal audit function to make administrative operations more efficient and economical.</p>	<p>Edmonds, Evergreen, Federal Way, Kent, Lake Washington, Puyallup, Spokane, Vancouver, Seattle</p>	<ul style="list-style-type: none"> Internal auditors must operate independent of their districts’ management in order to comply with auditing standards. All districts should take steps to reinforce auditor independence. District boards should provide input to and approve their internal audit work plan. 	<p>Cost savings are not quantifiable. Internal auditors, as shown by those in Tacoma, can identify duplicate payments, overcharges and other cost savings.</p>

Note: Each district’s individual results are in the full report, available at: <http://www.sao.wa.gov/Reports/AuditReports/AuditReportFiles/ar1000013.pdf>

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Cost savings

If our recommendations for improved economy and efficiency are followed, school districts could achieve cost savings exceeding \$54 million over five years. Of the 13 audit areas we identified, not all affect each district; in fact certain districts are commended for their work in some areas.

The audit cost \$1,394,674.

In full report, Appendices B-1 through B-10 summarize the recommendations for each district and the identified cost savings and financial impacts associated with each recommendation.

If followed, the recommendations could result in more than \$54 million in cost savings over five years.

Average cost per student for the 10 largest school districts and the cost savings per student identified in the audit

Full-time students enrolled at all 10 districts	Administrative/support services cost per student	Average teaching/support cost per student	Average cost per student	Estimated savings identified per student
261,039	\$2,338	\$5,717	\$8,056	\$172

What's next?

Initiative 900 requires the legislative bodies for the government agencies in this report hold at least one public hearing to consider the audit findings and to receive comments from the public within 30 days of this report's issue.

The corresponding legislative body – in this case, the school boards and the Legislature – must consider this report in connection with its spending practices. A report must be submitted by the school boards and the Legislature by July 1 each year detailing the status of the legislative implementation of the State Auditor's recommendations. Justification must be provided for recommendations not implemented. Details of other corrective action must be provided as well.

The state Legislature's Joint Legislative Audit and Review Committee will summarize any statewide issues that require action from the Legislature and will notify the appropriate fiscal and policy committees of public hearing agendas.

Initiative 900 provides no penalties for audited entities that do not follow recommendations in performance audit reports.

Follow-up performance audits of any state or local government agency or program may be conducted when determined necessary by the State Auditor.

Visit www.sao.wa.gov/PerformanceAudit/audit_reports.htm for:

- Full report
 - School districts' responses, action plans
 - Public hearing information
 - Districts' annual status reports
-

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For more information

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Main phone number (360) 902-0370

Web site <http://www.sao.wa.gov>

Toll-free hotline for reporting government waste and abuse (866) 902-3900

To find your legislator <http://apps.leg.wa.gov/districtfinder>

To contact the school districts:

School District and Superintendent and OSPI	Web site/e-mail address	Phone number
Edmonds School District Superintendent Nick Brossoit	http://www.edmonds.wednet.edu brossoitn@edmonds.wednet.edu	(425) 431-7003
Evergreen School District Superintendent John Deeder	http://www.egreen.wednet.edu jdeeder@egren.wednet.edu	(360) 604-4005
Federal Way School District Superintendent Tom Murphy	http://www.fwps.org tmurphy@fwps.org	(253) 945-2010
Kent School District Superintendent Barbara Grohe	http://www.kent.k12.wa.us Barbara.Grohe@kent.k12.wa.us	(253) 373-7701
Lake Washington School District Superintendent Chip Kimball	http://www.lwsd.org ckimball@lwsd.org	(425) 702-3257
Puyallup School District Superintendent Tony Apostle	http://www.puyallup.k12.wa.us/ tapostle@puyallup.k12.wa.us	(253) 841-1301
Seattle School District Superintendent Maria Goodloe-Johnson	http://www.seattleschools.org superintendent@seattleschools.org	(206) 252.0167
Spokane School District Superintendent Nancy Stowell	http://www.spokaneschools.org/ nancys@spokaneschools.org	(509) 354-7364
Tacoma School District Superintendent Arthur Jarvis	http://www.tacoma.k12.wa.us/ ajarvis@tacoma.k12.wa.us	(253) 571-1000
Vancouver School District Superintendent Steven Webb	http://www.vansd.org/ steven.webb@vansd.org	(360) 313-1200
OSPI State Superintendent Terry Bergeson	http://www.k12.wa.us terry.bergeson@k12.wa.us	(360) 725-6000



Performance Audit of the Washington State 10 Largest School Districts' Administrative Operations and Support Services



September 5, 2008

The Honorable Brian Sonntag, CGFM
Washington State Auditor
Washington State Auditor's Office
3200 Capitol Boulevard, SW
Olympia, Washington 98504-0031

Dear Mr. Sonntag:

In accordance with the terms of our contract with your office, Cotton & Company LLP conducted a performance audit of Washington State's 10 largest school districts' administrative operations and support services. The enclosed report provides an executive summary, objectives, scope, methodology, audit results, and our recommendations.

We appreciate the support provided by you as well as Lou Adams, Chris Cortines, and other members of your staff. We also appreciate the staff from the 10 school districts as they were very cooperative and helpful during the audit.

We are available to meet with you to discuss our audit results in more detail at your convenience.

Very truly yours,



COTTON & COMPANY LLP
Sam A. Hadley, CPA, CGFM
Partner

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ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
ASB	Associated Student Body
CFO	Chief Financial Officer
COLA	Cost of Living Adjustments
F-196	F-196 School District Annual Financial Reports
FTE	Full Time Equivalent
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GFOA	Government Finance Officers Association
HR	Human Resources
I-900	Initiative 900
IEP	Individualized Education Programs
IIA	Institute of Internal Auditors
LEAP	Legislative Evaluation Accountability Program
NAPCP	National Association of Purchasing Card Professionals
NSBA	National School Boards Association
OFM	Office of Financial Management
OPPAGA	Office of Program Policy and Government Accountability
OSPI	Office of the Superintendent of Public Instruction
RCW	Revised Code of Washington
SAS	Statement on Auditing Standards
WASBO	Washington Association of School Business Officials

EXECUTIVE SUMMARY

INTRODUCTION

More than \$10.9 billion is spent on Washington K-12 public schools each biennium. This represents nearly 42 percent of Washington State's General Fund. Of the \$10.9 billion, nearly \$1.4 billion (13 percent) is spent on administration costs. As revenues decrease, school districts across Washington State have struggled to provide the same level of service to their students. In order to do this, schools have reduced extra-curricular activities and increased participation fees for others. In some cases, such as with the Seattle and Tacoma School Districts, closures are being considered. As operational costs increase, funding has decreased in some school districts. The decrease in funding is mainly due to a declining student enrollment. This audit focuses on administrative and support services costs of the 10 largest school districts in Washington State in order to help identify opportunities for cost reduction and reduce fiscal distress.

In 2005, the voters of Washington State passed Initiative 900 authorizing the State Auditor's Office to begin conducting performance audits of various state and local government entities. The purpose of these performance audits is to promote accountability and cost-effective uses of public resources through identification of opportunities for potential cost savings. These savings can be achieved in a number of ways, such as reduction or elimination of services, implementation of best practices, change or elimination of roles and functions, and pooling of information technology. In addition to these opportunities, I-900 seeks recommendations for statutory or regulatory changes that may be necessary for the entity to carry out its functions properly.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Specifically this performance audit addresses the following two objectives within each of the largest Washington school districts:

- How economical are each school district's administrative operations, administrative costs, administrative salaries and administrative staffing levels? If not economical, determine the impact on costs and resources.
- How efficient are each school district's administrative operations? If not efficient, what is the impact on cost and available resources?

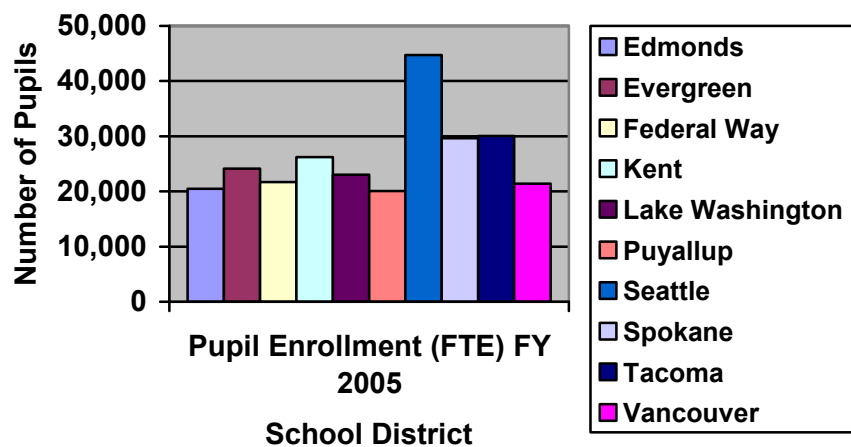
Additionally, our review of the 10 largest Washington school districts complies with Initiative 900 and the Revised Code of Washington (RCW) Section 43.09.470. During the course of the performance audit we looked to identify opportunities, strategies, and best practices that include:

- Identification of cost savings.
- Identification of services that can be reduced or eliminated.
- Identification of programs or services that can be transferred to the private sector.
- Analysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps.
- Feasibility of pooling information technology systems within the district.
- Analysis of the roles and functions within the department and recommendations to change or eliminate district roles or functions.
- Analysis of district performance data, performance measures, and self-assessment systems.
- Recommendations for statutory or regulatory changes that may be necessary.
- Identification of best practices.

Scope and Scope Limitations

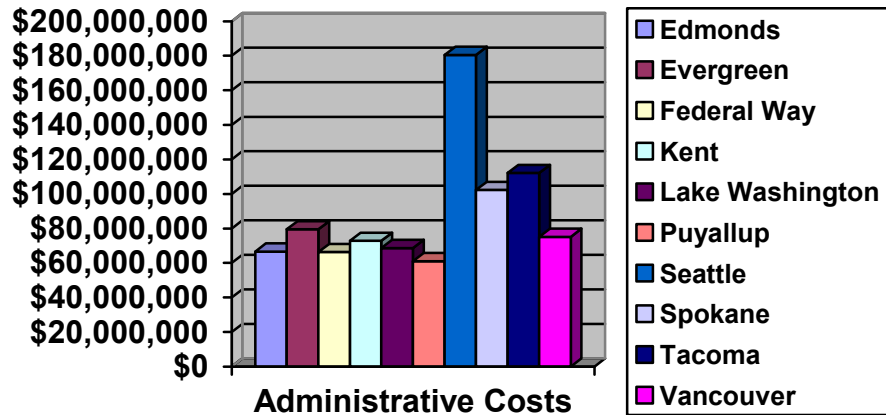
This performance audit was conducted to review and analyze the economy and efficiency of the administrative and support services operations at the 10 largest Washington school districts. We conducted this performance audit in accordance with generally accepted government auditing standards¹ (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The 10 largest school districts were identified by the State Auditor’s Office based on the reported student enrollment for the fiscal year ending 2005:



For purposes of conducting this audit, administrative costs are defined as general administration, supervision and other support services necessary for management and administrative control for each school district. The scope of our audit was limited to the administrative and support services expenditures of the 10 largest school districts. The total amounts expended from each of those school districts as reported to Office of Superintendent of Public Instruction (OSPI) in the F-196 Annual Financial Statements for fiscal year 2005-2006 are shown in the following chart:

¹ GAO-07-731G, *Government Auditing Standards*, United States Government Accountability Office, July 2007 revision.



The scope of our audit included data from all 10 school districts for the fiscal years ending 2004, 2005, and 2006. This performance audit reviewed the current processes and systems in place at each school district. In some instances, the audit used data provided by the districts, the State Auditor’s Office and the OSPI that was extracted from or rolled into the audited financial statements. Although much of this data was subject to an analytical review, for purposes of this performance audit, this and other data was not subject to further audit procedures.

In planning our audit, we gained an understanding of internal controls that relate to the audit objectives. As part of our survey and testing phases, we determined whether proper internal controls were placed in operation.

Methodology

To achieve the performance audit objectives, a multiphase audit approach was developed. The audit was conducted in six phases:

- Phase 1: Planning Phase – Gain an understanding of the audit entities, review applicable laws and regulations, and solicit input of district stakeholders to assist in risk assessment and identify key areas to consider in the development of the audit plan. Identify performance measurement indicators for each functional area of the administrative and support services operations.
- Phase 2: Audit Tool Kit – The Audit Tool Kit is composed of four elements that review each functional area of administrative and support services operations: Key Indicators, Survey Results, Hypotheses, and Interview Questionnaires. The key indicators of financial and operational measurements are computed and analyzed against standards/benchmarks. Significant variances to benchmarks, Hypotheses (which identify potential areas contributing to poor performance) and Survey Results drive the Interview Questionnaires to be administered. The Interviews focus on identifying why the district’s performance for key indicators under-perform compared to those of the benchmarks.
- Phase 3: Collection and compilation of data from all 10 school districts.

- Phase 4: Conduct Fieldwork – This includes the key indicator analysis using the school districts’ requested data items, interviews with district staff and administration and OSPI officials; and the performance of financial and operational analysis and district performance comparisons. Compilation of the preliminary audit results identified during the planning and fieldwork phases and submit to the State Auditor’s Office for review and comment.
- Phase 5: Develop the draft report to include identified opportunities to improve the overall economy and efficiency of operations.
- Phase 6: Obtain the State Auditor’s Office comments on the audit report and conduct presentations to the school districts, OSPI, and state Legislature or legislative committees, and/or other interest groups.

Based on our review, we identified 13 issues and related recommendations. We further grouped those issues into three organizational areas:

District Operational Inefficiencies and Savings Opportunities

- Three of 10 school districts use inefficient methods to manage bus routes, leading to increased costs.
- Three of 10 school districts have large backlogs of deferred maintenance, risking higher repair and/or replacement costs in the future.
- Seattle School District has more classrooms than students to fill them and should reduce the number of school buildings in order to lower maintenance and administrative costs.
- Four of 10 school districts use an excessive number of portable classrooms, which are more expensive to maintain and pose risks to health and safety.
- Seattle School District’s executives, managers and supervisors are overstaffed as compared to the other nine school districts.
- Tacoma School District’s human resource department has too many managers based on comparisons to the other nine school districts.
- Tacoma School District is spending unnecessary time recording and tracking low-ticket equipment that is remotely susceptible to misappropriation.
- Five of the 10 school districts can achieve greater economy, efficiency through increased use of purchasing cards.

Statewide Inefficiencies and Savings Opportunities

- State requirements for school districts to document and evaluate teacher experience and education are inefficient and increase districts’ administrative costs.

District Organizational Effectiveness and Controls

- Four of the 10 school districts lack important elements of a strategic planning process that drives the direction of district goals.
- School districts need an accurate picture of the cost to operate programs in order to assess whether those programs are efficient and economical.
- Vancouver School District’s lack of a fund balance management policy has resulted in a notably low fund balance.
- School districts do not fully use internal auditors to make administrative operations more efficient and economical.

Criteria used in assessing the economy and efficiency of the 10 largest school districts in the state came from varying sources, research and recognized best practices. This included state law, best practices recognized in other states and nationally, prior performance audits performed of other entities, and guidance given by state and

national educational and governmental associations. The specific criteria applied are identified in each audit result.

I-900 ELEMENTS

Appendix A, provided at the end of this audit report, displays correlations between our detailed audit results and Initiative 900 Elements.

SUMMARY OF RESULTS

This report contains audit results, conclusions, and recommendations for improvement in the economy and efficiency of the administrative and support services operations at the 10 largest Washington school districts. We identified 13 areas where districts could improve efficiencies and effectiveness, however not all areas affect each district, and in fact certain districts are commended for their work in that area. We identified more than \$54 million in cost savings over five years in all 10 districts. For each issue, we have identified those districts where we are recommending that improvements can be made as follows:

Condition	Washington State School Districts										OSPI	State Legislature	Estimated Five-Year Cost Savings (in millions)
	Edmonds	Evergreen	Federal Way	Kent	Lake Washington	Puyallup	Seattle	Spokane	Tacoma	Vancouver			
OPERATIONAL INEFFICIENCIES AND SAVINGS OPPORTUNITIES													
1. Automated Bus Routing	✓					✓				✓			\$8.0 ¹
2. Deferred Maintenance Backlog			✓		✓	✓							*
3. Excess Building Capacity						✓							See Note 1
4. Excessive Use of Portables		✓		✓	✓	✓							*
5. Executive Staffing Levels						✓							\$10.5
6. Human Resources								✓					\$8.4
7. Inventory Capitalization								✓					\$0.1
8. Use of Purchasing Cards	✓	✓			✓	✓				✓			\$20.8 ¹

¹ Estimated savings represent both opportunity cost savings from a reduction of processes and other realizable cost savings due to a reduction in the cost of operations.

Condition	Washington State School Districts										OSPI	State Legislature	Estimated Five-Year Cost Savings (in millions)	
	Edmonds	Evergreen	Federal Way	Kent	Lake Washington	Puyallup	Seattle	Spokane	Tacoma	Vancouver				
STATEWIDE INEFFICIENCIES AND SAVINGS OPPORTUNITIES														
9. Inefficient Verification of Certificated Employees											✓	✓	\$6.5	
ORGANIZATIONAL EFFECTIVENESS AND CONTROLS														
10. Strategic Planning			✓	✓		✓			✓				*	
11. Financial Management and Cost Analysis	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	*	
12. Fund Balance Management Policy										✓			*	
13. Internal Auditor Function	✓	✓	✓	✓	✓	✓	✓	✓		✓			*	
Estimated Cost Savings (in millions)	\$5.2	\$3.3	*	*	\$4.2	\$7.6	\$10.5	*	\$8.5	\$8.5	*	\$6.5	\$54.3	

Note 1: The amount of cost savings related to building closures will depend on the number and type of buildings that are chosen for closure. The Seattle school district recently closed six school district buildings and will close one additional building later this year with an estimated annual savings of \$2.4 million in operating costs. The district also calculated a short term savings of approximately \$6 million of capital expenditures for related repairs and upgrades. Further, the district also calculated long term cost-avoidances of \$38 million on deferred maintenance and seismic upgrades for those buildings.

We did not identify significant deficiencies in internal controls at the 10 districts. However, we did identify certain issues that affect internal controls. Specifically Condition Nos. 9, 11, 12, and 13 above, identify areas where internal controls should be strengthened.

We provided our findings and recommendations to the school district’s management for review, analysis, and response. We evaluated school districts’ responses and modified our recommendations and conclusions as we deemed appropriate for the circumstances.

We identified recommendations for improvements to efficiency and effectiveness. These recommendations, if implemented could result in cost savings or in improved procedures with an identified value. Appendices B-1 through B-10 summarizes the recommendations by district and the identified cost savings or values associated with each recommendation.

* Realized cost savings are not quantifiable because they are driven by the district or are indirect in nature.

DISTRICT OPERATIONAL INEFFICIENCIES AND SAVINGS OPPORTUNITIES

1. AUTOMATED BUS ROUTING

Three of 10 school districts use inefficient methods to manage bus routes, leading to increased costs.

BACKGROUND

School districts historically routed buses using maps, pins and rubber bands. Techniques involve using pins to represent bus stops, and rubber bands linked between pins to represent routes. Using this approach, transportation employees try to create the most efficient routes while taking into consideration traffic, unsafe intersections, student walking distances to stops and more. These routes are managed by the transportation department and manually altered to reflect changes in the student population. When routes are made and altered, pins and rubber bands are rearranged and new directions or maps are created by the transportation staff for bus drivers. A paper copy of routes and students on those routes are kept with the central dispatch. Before each new school year, new routes are mapped and the effort to find the most efficient routes begins again. This process could require 80 or more hours of staff time, and the need to bring in additional help. Using this method, routes are made available to the public in an annual newspaper posting, by phoning the district, or (in some cases) through the district Web site. To this day, numerous school districts still use this approach.

Manual bus route planning can seem manageable to smaller districts with minimal stops, routes, and route options. It provides the flexibility needed to make quick changes for new students, or for changing Individualized Education Programs (IEP). For special education students, it is time consuming and changes made to the map are not automatically reflected on Web sites, student address lists and route directions or maps provided to drivers. This causes potential liability issues because there is a chance that dispatchers will not have the most current student or route information in case there is a bus accident or missing child. It also creates a greater possibility that route changes may be overlooked and students may not be picked up.

We examined the routing processes of each of the 10 school districts. Three districts have not been using computerized routing software, or have not been employing its full capacity. Districts that use it only as a mapping tool to plot students, or refuse to use the optimization tool to let the computer provide input on the most efficient routes, are missing out on potential time and money savings. For the amount invested in acquiring such a system, upgrades, and training, it is important that a district use the product to its full capacity in order to reap the benefits. If necessary to fully automate, the district should consider purchasing additional training or attending the company's training sessions.

Edmonds School District

Edmonds School District's expenditures for the pupil transportation program in fiscal year 2007 were \$7.6 million. Edmonds has not fully automated its routing process (including special education transportation), which leads to inefficiencies and increased cost. Edmonds has the second worst average bus occupancy (load factor) for special education students in a 12 district study done by the Edmonds Transportation Director, which can be partially attributable to a manual routing process. The same study revealed that Edmonds had the best basic education load factor. This shows the positive effect that automated routing has made on its regular education program.

Edmonds has been using Edulog as an automated routing system since 1989 for basic education routing; however, it is not used for special education transportation routing. Edmonds' Assistant Transportation Director noted that because the special education routes are inconsistent, the delay makes it nearly impossible to schedule these routes according to best logistical practices, and that the School's transportation department would need at least 10 days' notice to be able to change the route if it were in Edulog. However, we noted that the Kent School

District has also been using Edulog since 1989 and uses it for special education routing. The director at Kent noted that with the Edulog updates and updated training, special education routing can have the same benefits and be achieved as quickly as basic education routing. Additionally, Tacoma School District (using Edulog) makes route changes regularly on Mondays and Thursdays; Federal Way School District (using Edulog) only requires three days for turnaround; and Evergreen School District, using another routing software (Versatran), can make these changes in 24-48 hours.

Puyallup School District

Puyallup School District has not fully automated its basic and special education routing process that leads to inefficiencies and increased cost. Total expenditures for the pupil transportation program in fiscal year 2007 were \$7 million.

Puyallup's Transportation Director said that he has considered using automated routers, but has not found a routing system that is flexible and user-friendly enough to develop complex routes and update routes on the kind of timelines they need. As a result, Puyallup is using a mapping program called Arc View Version 9.2 to map student addresses, and then manually draw boundaries, and code students to routes.

Vancouver School District

Vancouver School District has not fully automated its basic and special education routing processes, which leads to inefficiencies and increased cost. Total expenditures for the pupil transportation program in fiscal year 2007 were \$6.1 million.

Vancouver purchased the Versatrans routing system two years ago, but still does routing manually. The Director said that the district initially delayed implementing Versatrans because Vancouver was changing its student management system. Once the student management software was in place, he learned that Versatrans would not import the student addresses from the student management system if they were not entered in a specific format. The transportation department was researching solutions as well as performing significant data entry manipulations to student addresses to help the data conversion.

CRITERIA/ COMMENDATIONS

The State of Florida Office of Program Policy and Government Accountability (OPPAGA) identifies the following standards in its "Best Financial Management Practices" for transportation:

- Use a systematic approach to create and update bus routes (including computer routing if appropriate for the size and complexity of the district).
- Ensure that bus stops are effective and cost-efficient without compromising safety.
- Annually review existing bus routes and stops for effectiveness, cost-efficiency, and safety.

OPPAGA notes that these routing practices result in reasonably high average bus occupancy, and low cost per mile and student, as compared to districts with similar demographics and educational programs that do not use these practices .




Several districts in the audit scope use automated routing software effectively:

- **Evergreen School District** has had great success with its automated routing software, having only implemented it two years ago. The transportation director said that the District has yet to recognize the

full benefits of the software. Evergreen was featured in Versatrans’ testimonials, and success stories sections³. Evergreen claimed to have saved time and money, reduced bias in routing and in boundary drawing, and reduced the margin for error. Additionally, Evergreen mentioned the usefulness of the system’s ability to test “what-if” scenarios. The transportation director also stated that although Evergreen is in a growth mode, it has been able to reduce labor costs resulting from a significant reduction in staff overtime hours to prepare routes, as well as bus driver hours. Overall, Evergreen has done a great job at implementing the software and working towards using the software’s full potential.

- **Kent School District** has also benefited through effective use of automated routing. Despite an estimated 70 percent student turnover rate in a few elementary schools, Kent has still been able to have most buses run three routes. This requires a lot of coordination, and is the result of the director’s ability to control bell times, his work with special services to centralize special education services, and the department’s effective use of its automated routing software. With the ability to use 10 different bell times through automated routing, Kent is able to better utilize equipment and bus driver time. The director has made it a point to go through all developments and improvements offered by the automated routing company, and pointed out that the company offers training in Missoula, Montana, a yearly conference in Las Vegas, Nevada, and online training. The director’s understanding of the program, stemming from his involvement in training, enables him to offer better support to the staff in his office.
- **Lake Washington School District** has also been able to have each bus run three routes (or tiers). Each bus has two elementary routes, and then either a high school or junior high school route.

RECOMMENDATIONS

<p>Edmonds #1</p> 	<p>We recommend that Edmonds implement automated routing software for special education routes. In order to make changes as quickly and efficiently as other districts, the transportation department will most likely need to seek out additional training or updates for Edulog.</p> <p>Edmonds should create a timeline to guide the continuing implementation process, and seek the advice of local districts facing similar special education routing issues. Any additional costs to fully implement the routing software at this point are necessary if the software is to be successful and eventually pay for itself in cost savings.</p>
<p>Puyallup #1</p> 	<p>We recommend Puyallup implement automated routing software. Although each software program will have its pros and cons, it has been shown that taking the step to automate routing has undoubtedly created savings for districts across the country. We recommend Puyallup ensure, by contract, that thorough training will be provided by the vendor. Full implementation should occur within the first year, and the department leaders must promote the change in order to gain the support of the staff. Additionally, Puyallup should create a timeline to guide the continuing implementation process, and seek the advice of similar local districts that have fully automated its routing processes.</p>
<p>Vancouver #1</p> 	<p>We recommend Vancouver implement automated routing software for all regular bus routes (including special education). Vancouver should create a timeline to guide the continuing implementation process. We also recommend that Vancouver communicate with Evergreen for help with further implementation because both Districts have the same routing and student management system. The additional costs to fully implement the routing software at this point are necessary if the software is to be successful and</p>

³ See www.versatrans.com.

eventually pay for itself in cost savings.
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POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATIONS

Edmonds, Puyallup, and Vancouver are not experiencing the full benefits of automated routing, including qualitative benefits and estimated cost savings.

A variety of qualitative benefits have been realized by automating the bus routing process:

- Improved and timelier communications to students, parents, teachers, and staff.
- Online information to parents and realtors detailing information about bus runs, school boundaries, the school of attendance, transportation eligibility, and the closest available bus stop.
- Elimination (or reduction) of ad hoc calls to the routers and better information to the community, without displaying confidential information such as names, home addresses, or phone numbers.
- Up-to-date, accurate student information in case of emergency.
- Reduction of student ride times.
- Crucial student information such as allergies or behavioral issues will be tracked with the student, and information will be available to routers and drivers as necessary.
- An unbiased, flexible source to assist in establishing boundary lines that can show instant results and comparisons.

These benefits can be accessed by multiple transportation staff members in a read-only format.

Potential Cost Savings

Automated routing allows a district to pull student addresses from the district's student management system and upload them onto a detailed map. The router can then input parameters such as maximum walking distance for the software to use to create automated routes. This process is much less time consuming than manual routing. OPPAGA, Versatrans, Edulog, and multiple districts agree that automated routing saves a district time and therefore money. Potential cost savings result from reduced labor hours (and number of employees), reduced buses (and therefore the related purchase cost, maintenance, insurance, and repairs), reduced fuel, and more. For example,

- Evergreen School District found that its labor hours were significantly reduced by implementing automated routing. Evergreen was able to do its routing with only eight to 10 hours of overtime, as compared to 80 to 100 hours of overtime and additional help that was needed before automated routing was used. The labor hours spent on route changes during the year, and redrawing boundaries also decreased. Whereas boundaries used to take six hours to define, one staff stated she could do this in six minutes with the use of their automated software. Labor hours were also reduced on handling phone calls from real estate agents (inquiring about bus routes and student pickup locations), community phone calls, and general miscommunications. Evergreen also found that even though its ridership is increasing, it has been able to reduce the amount of bus drivers from 209 to 207, and reduce total transportation staff salaries before including cost-of-living adjustments.

- The Marion County School District (Florida) found it could eliminate one office staff position by implementing the software.
- Rutherford County Public Schools (Tennessee) avoided purchasing 10 additional buses (about \$350,000), reduced rider time by 30 minutes, and reduced route length by 1,502 miles per day (saving \$239,273 per year) with the use of Edulog, despite a large increase in ridership. In Rutherford's first year with the product, it saved approximately \$250,000 by re-routing its special education routes.
- Fairfax County School District (Virginia) found that the software enabled the District to reduce the number of bus routes by 5 percent to 10 percent.
- Edulog states that its product will pay for itself in two years, and a sales representative confirmed that districts report saving up to 20 percent of their budget.

In order to calculate the value of time savings for Edmonds, Puyallup, and Vancouver, we reviewed the cost savings calculations from both Edulog and Rutherford.

Using Edulog's estimate (of 20 percent of total budget), Edmonds, Puyallup, and Vancouver would save between \$1.1 and \$1.3 million each year. We performed an independent calculation shown below.

In 1997, Rutherford calculated costs savings from their first year of automated routing to be \$16 per basic education student, and \$691 per special education student. While these figures are outdated, they can be used to calculate a conservative estimate of cost savings for Edmonds, Puyallup, and Vancouver, using State-reported ridership figures for each district to project the potential cost savings:

Estimated Value of Time and Cost Savings (2005-2006 data)				
	Basic Education	Special Education	Total District Savings⁴	Five-year Savings
Edmonds		\$395,718.23	\$395,700	\$1,978,500
Puyallup	\$115,885.79	\$461,325.97	\$577,200	\$2,886,000
Vancouver	\$130,566.69	\$511,049.72	\$641,600	\$3,208,000

We recognize that this potential cost savings must typically be offset by the purchase of software, training, and other technology upgrades. Edmonds has already purchased the Edulog software, however, upgrades and additional training may be necessary. Additionally, Edmonds has stated that it is looking into a different routing software with an initial cost estimate of \$20,000 and a per year expense of \$5,000. Puyallup will incur initial software purchase costs, any technology needs that might be necessary, as well as software training costs for its employees. Vancouver has already purchased the Versatrans software, but may incur costs for technology upgrades or additional employee training because the period for free training provided by the vendor may have expired.

SUBSEQUENT EVENTS

Following the completion of our fieldwork, we learned that the Vancouver has started implementing the Versatrans routing software for a portion of the regular education routes.

⁴ Estimated savings result from opportunity cost savings in the reduction of time required for route planning, processing route changes and responding to route information requests. Other realizable cost savings are achieved by reduced labor hours, reduced use of buses and therefore the related purchase, fuel and maintenance costs.

2. DEFERRED MAINTENANCE BACKLOG

Three of 10 school districts have large backlogs of deferred maintenance, risking higher repair and/or replacement costs in the future.

BACKGROUND

Deferred maintenance is a practice of allowing machinery or infrastructure to deteriorate by postponing prudent but non-essential repairs to save cost, labor, and/or material. The failure to perform needed repair, maintenance, and renewal by normal maintenance management creates deferred maintenance. Typically, ongoing deferred maintenance results in higher costs or increased failures, when compared to preventive maintenance costs and its resulting minimal failures. Maintenance competes for funding with other programs and is often deferred because appropriations are not available or were redirected to other priorities or projects. Deferred maintenance is often not immediately reported -- and sometimes, not at all. When maintenance is deferred because of insufficient funding, it may result in increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations.

Preventive maintenance provides efficiency in the management of maintenance operations. Preventive maintenance is the care and servicing by personnel for the purpose of maintaining equipment and facilities in satisfactory operating condition by providing for systematic inspection, detection, and correction of incipient failures either before they occur or before they develop into major defects.

We examined the maintenance operations of each of the 10 school districts. Federal Way, Lake Washington, and Seattle School Districts have accumulated a significant backlog of deferred maintenance. Federal Way calculates the amount of its deferred maintenance backlog to be approximately \$47 million. Seattle calculates its deferred maintenance backlog to be approximately \$400 million. Lake Washington has not calculated the amount of its deferred maintenance backlog.

Federal Way School District

Only repairs or corrections to deficiencies in basic health, safety, and welfare are being performed at the present time. Federal Way provides corrective maintenance to equipment and facility failures as they occur, performs limited preventive maintenance, and has a significant deferred maintenance backlog. Federal Way estimated that its deferred maintenance backlog totals approximately \$47 million. For its maintenance operations, Federal Way uses a business model that keeps in-house maintenance staff lean, while supplementing it with outsourced services. Federal Way plans to use \$19,950,000 in state-matched funds triggered by the passage of the May 15, 2007, bond measure to pay for a portion of the \$47 million deferred maintenance backlog.

Lake Washington School District

Lake Washington is understaffed at 114,814 square feet per maintenance worker, as compared to the national average of 86,000 square feet per maintenance personnel. However, outside contractors do supplement its staff. Lake Washington officials acknowledge that they have a maintenance backlog, but have not taken the steps needed to estimate its amount of accumulated deferred maintenance. Lake Washington has replaced one-quarter of its entire building inventory nearly every 10 years; therefore, the District does not address significant amounts of deferred maintenance. District officials state that if the District used the Facility Condition Index of 15 percent (deferred maintenance as a ratio of replacement value) it could accumulate a deferred maintenance backlog of \$159 million and still be benchmarked as having "fair to good" facilities. A preventive maintenance reminder system is in place, but no resources are dedicated for any significant preventive maintenance. The continuance of

a systematic plan that does not include adequate preventive maintenance will ultimately result in a significant accumulation of deferred maintenance over time.

Seattle School District

Only critical health, safety, and welfare items are typically addressed in maintenance operations, with the recent exception of some preventive maintenance being performed on new facilities and equipment. Seattle has a backlog of work orders and deferred maintenance items it estimates at \$400 million.

Seattle is understaffed in maintenance workers for the amount of facilities the District has to maintain. The total area of the Seattle facilities is 9.2 million square feet. Seattle employs 95 non-management maintenance workers that equates to 97,000 square feet per worker. The District would need 12 more workers to reach the national average of 86,000 square feet per maintenance personnel.




Recently, the Seattle School Board approved the 2020 Facilities Master Plan that includes a district strategy to address its deferred maintenance backlog.



CRITERIA/COMMENDATIONS

According to *Save a Penny, Lose a School: The Real Cost of Deferred Maintenance*, preventive maintenance should be the standard operating procedure of a school district, and deferred maintenance should not be tolerated. Additionally, *School Renovation and Maintenance* notes that the costs of deferring maintenance can be staggering and are never properly identified because the natural deterioration of a building cannot be accurately measured, only estimated.

During the early 1990s, the Washington State Board of Education recognized the importance of preventive maintenance, and enacted administrative rule requiring school districts that did major construction after 1992 to document funds spent on preventive maintenance before additional funds for new construction could be approved. This “2 percent rule” requires an average annual maintenance spending of at least 2 percent per year of replacement cost in buildings over 15 years old, or accept a penalty on future state capital construction assistance. Thus, the buildings built in 1993 may be modernized with state assistance in 2023. At that time, the 15 years of accounting at a 2 percent level for maintenance must be demonstrated or the district is penalized for modernization by decreasing state assistance. While the implementation of this rule has been delayed for one year, OSPI prefers districts to perform adequate preventive maintenance to extend the life of the facilities.

RECOMMENDATIONS

<p>Federal Way #2</p>  <p>Seattle #2</p>  <p>Lake Washington #2</p> 	<p>We recommend these districts:</p> <ul style="list-style-type: none"> • Develop and implement a formal deferred maintenance plan to divest their deferred maintenance backlogs. This plan will include the appropriate actions needed to eliminate the deferred maintenance backlog and an establishment of a timeline to complete the work with a corresponding budget plan. • Develop and implement a formal preventive maintenance program. A preventive maintenance program will help prevent the risk of unforeseen equipment and system failures; lengthen building and equipment life; and eliminate the costly accumulation of deferred maintenance.
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<p>Federal Way #2</p>  <p>Lake Washington #2</p> 	<p>We recommend these districts:</p> <ul style="list-style-type: none"> • Identify the current deferred maintenance backlog and estimate the cost to correct all deficiencies. • Implement a procedure to track all deferred maintenance items and estimated costs.
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POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATIONS

The continued accumulation of deferred maintenance and the resulting degradation of facilities have a negative impact on the districts. According to *School Renovation and Maintenance*, the effects of emphasizing preventive maintenance are as follows:

1. Useable time for equipment is maximized.
2. The lifetime of a building, piece of equipment or mechanical system is optimized.
3. Unplanned outages or failures of building components, equipment, or systems are significantly reduced and possibly completely eliminated.
4. Collateral damage such as structural collapse and even bodily injury from failures is significantly reduced.

Potential Cost Savings

Operating a continual deferred maintenance backlog is an inefficient use of resources, which will cost the district more over the long run than can be saved annually through operating with minimal maintenance staffing and reduced funding of maintenance activities. *School Renovation and Maintenance* notes:

Most authorities recommend 2 percent of the replacement cost of a building be spent on maintenance work each year on the life of the building. When less than that amount is spent, deferred maintenance occurs and accumulates each year, until the accumulated projects need immediate attention that is more costly, and eventually may require alternative financing such as a bond issue. Deferred maintenance in this instance can be classified as deficit budgeting, in that there is an accumulation of spending needs not accomplished. Many times the deferred maintenance projects are big-ticket items requiring considerable outlay of funding, perhaps more than the school system can afford in one year.

3. EXCESS BUILDING CAPACITY

Seattle School District has more classrooms than it needs and should reduce the number of school buildings to lower administrative and maintenance costs.

BACKGROUND

When a school district experiences declining enrollment over a sustained period of time, with no reasonable expectation of a return to previous enrollment figures in the foreseeable future, it is likely that there will be excess building capacity in that district's facilities inventory. Urban school districts across the United States are experiencing declining enrollments. Examples include the urban school districts of Baltimore, Cleveland, Philadelphia, Portland, San Francisco, and Washington, D.C. Declining enrollments are not necessarily the sole reason school buildings may need to be closed. In some districts, neighborhood characteristics change over time. For example, neighborhoods with predominantly young families with children over time transform to older families with many fewer children. Thus, especially in the case of elementary schools, enrollment may decline due to such naturally occurring demographic changes.

The amount of excess space must be carefully evaluated and include issues such as the number and types of specialized programs, the current and future preferred student class size; and the need for building support functions, such as cafeterias, resource centers, gymnasiums, and computer labs. As a result, thorough studies must be performed to determine what can and should be closed, given current conditions and requirements. Additionally, plans to close or realign school buildings are often the subject of public opposition and controversy.

We examined the building capacity and pupil size of the 10 districts and noted that Seattle has a significant amount of excess building capacity.

Seattle School District

Seattle has recognized for more than a decade that it has more classroom space than it needs and is potentially incurring excess operating and maintenance costs. This has been documented in various locations, including Seattle's own Web site and the press. Currently, the District estimates it has classroom capacity for nearly 10,000 more students than the nearly 45,000 that are projected to be enrolled over the next nine years. Seattle has actively pursued school building closures and adopted a school closure plan. That plan resulted in the closure of six schools during the summer of 2007, due to their merger into six other schools. A seventh school is to be closed by dispersing its programs into several other schools during the summer of 2008. Before that time, consultants' studies, advisory committee reports, and other formal plans submitted by the prior superintendent met with opposition from citizens' groups, and no closure plans were formally adopted and implemented. A new superintendent was appointed in mid-2007. No new closure initiatives have been proposed since her appointment. During the 1960s, about 100,000 students attended district schools. At the present time, student enrollment has declined to less than half of that amount.

Seattle is in the process of addressing its excess capacity concerns. While the District has already accomplished six school mergers and one closure by program dispersal to several other schools, it appears that further studies will be needed to determine the extent to which any additional building closures may be warranted.

CRITERIA/COMMENDATIONS

OSPI provides school capacity guidelines for use by school districts in creating their capital facilities plans. These guidelines are used by all school districts in Washington to calculate capacity. Using these guidelines, each school district must make its own determination concerning the allocation of square footage, class size, and other areas


that will best serve and support its academic and other programs. As part of such a determination, a school district should incorporate an internal or external study of facilities requirements in its Facilities Master Plan updates. If excess facilities are identified, the District must develop a building closure plan and implement it as completely and speedily as possible, with optimum potential capital and operating cost savings, and the highest possible public involvement and input.

Using these guidelines, in creating the 2010 Facilities Master Plan Update, the Seattle School District has determined it has the capacity to house 54,437 students, whereas actual enrollment in 2006 was 46,169. This calculation includes alternative enrollment students. Total enrollment is projected to decline to 45,488 by 2010 and declining further to 44,527 by 2017.

Tacoma School District

The **Tacoma School District** appears to have dealt with the majority of its current excess capacity concerns during 2006 by closing and consolidating schools. The active solicitation of public input in the building closure process is commendable. This does not necessarily mean that further school closures may not need to be considered in Tacoma. It is a best practice for any school district to recalculate building capacities periodically, and to consider revising student assignment strategies and the potential need for redistricting.

RECOMMENDATION

<p>Seattle #3</p>		<p>We recommend Seattle initiate a study, and if feasible, implement further school closures. Seattle took an important first step by closing seven facilities and offering them for sale or lease. Seattle plans to recalculate its building capacity by using its most current occupancy and space allocation criteria, and develop a new student assignment strategy by the 2010-11 school year. As a consequence, Seattle Public Schools should be able to develop a plan for additional school closures soon thereafter.</p> <p>By hiring independent consultants, or by using qualified in-house staff, a careful study of student housing needs should be conducted. From the study results, a new student assignment plan should be developed. If excess building capacity is found, the District should devise plans to save capital as well as operating costs by closing these unneeded buildings, and taking them off its inventory. This can be accomplished in many cases by selling or leasing the excess buildings to other parties, provided that a viable market exists. Other elements of such a strategy may include:</p> <ul style="list-style-type: none"> • Demolishing some structures that would be more expensive to rehabilitate or renovate, and selling, leasing, or re-using the raw land; • Removing or relocating any available portable classrooms as may be feasible and necessary; and • Adapting some no longer needed buildings for other purposes, such as administration or operations, thus saving the cost of new construction. <p>Boarding-up or “mothballing” unneeded structures is generally not recommended, as buildings left in such a state tend to be subject to vandalism and gradual deterioration.</p>
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POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATION

Potential Cost Savings

While Seattle has acted to close seven buildings, it likely continues to operate a substantial amount of its buildings below optimum capacity. This is an operations and maintenance money drain Seattle should not afford. As is the case with the recently closed buildings, money saved from not operating and maintaining additional closed buildings could be applied to resources for the classroom or other District needs. By closing the seven buildings, Seattle estimates an annual savings of \$2.4 million in operating costs, which will result in a combined savings of \$12 million over the next five years. The district will also realize short-term savings of approximately \$6 million in capital expenditures. Further, the district will achieve long-term cost-avoidances by not having to spend an estimated \$38 million on deferred maintenance and seismic upgrades for those buildings. Seattle has suffered at various times through significant challenges with balancing its budgets. Maintaining excess buildings has likely been a contributing factor to these difficulties.

Additional savings of similar magnitude may be possible by the closure of additional facilities. The number of facilities that could be closed and the associated cost savings cannot be determined until the above recommendation is acted upon.

4. EXCESSIVE USE OF PORTABLES

Four of 10 school districts use an excessive number of portable classrooms, which are more expensive to maintain.

BACKGROUND

School districts across the country use portable classroom structures as a temporary measure to house students that arrive more rapidly than facilities construction programs can accommodate. Consequently, portable classroom buildings are intended to house an influx of new enrollees until permanent structures are completed. Rapidly growing school districts are therefore the most likely places where one would find portable classrooms in significant numbers.

Unfortunately, portable, or “temporary,” classrooms are often in service for many years, even decades, at some schools and school districts. This usually indicates that new, permanent construction has not been accomplished in a sufficiently timely manner. It may also be evidence of a conscious decision on the part of a school district’s administration to use the portable structures in a permanent manner.

There are reasons why districts should limit the use of portable classrooms:

- When attached to a particular school (elementary, middle, or high school) they usually place an extraordinary and undesirable financial burden on core facilities such as resource centers, computer labs, cafeterias and kitchens, gymnasiums, auditoriums, toilets, etc. because the number of students using these facilities exceeds planned use.
- They are not as well insulated as permanent structures, have a high ratio of exposed exterior wall area to enclosed volume, and are heated and cooled via electricity; thus they are less energy-efficient on the whole than permanent construction.
- They usually require more labor-intensive cleaning due to lower quality interior finishes, additional clutter accumulated from limited storage space, and their remote location from the main school facility.
- Older portable classroom buildings may require more frequent maintenance due to unexpected maintenance and equipment failures.
- They are less easily secured as part of an overall school lockdown procedure because they are not contained within the secure perimeter of the permanent school building.
- They are more vulnerable to break-ins because they are often not included in camera surveillance or in the secured perimeter of the permanent school building.
- The location of portable classroom buildings away from the main school building may create an insular atmosphere for the faculty and students housed in portables, leading to less frequent socialization.
- Tests performed by the California Environmental Protection Agency found the use of portable classrooms is linked to several types of health problems in children and teachers, such as headaches, chronic sinus infections, colds and respiratory problems.

Arguments favoring the use of portable classrooms for the longer term counter some of the issues raised above, and offer additional opinions:

- They are considerably less expensive to acquire and install than permanent school construction.
- They give a school district the flexibility to move them from a school with declining enrollment to another school with increasing enrollment when neighborhood demographics change.
- It is easier to close and remove portable classroom facilities than to close and sell or lease entire schools when a school district experiences declining enrollment.
- The service cores of schools can be built to a capacity that can accommodate a certain number of portables in anticipation of the possibility that they will be needed.
- The low cost installation of a programmable thermostat and occupancy sensor will help reduce energy consumption in portable classrooms significantly.
- Newer generations of portable classrooms are more durable and energy-efficient than their predecessors.

Thus, a prevailing view across the country on the use of portable classrooms is that while their wholesale, long-term use may not usually be desirable, they are in fact a needed tool for school districts to deal with fluctuating enrollments. Portables also aid in housing the rapidly growing number of students that arrive at a district, when school construction funding and permanent construction efforts cannot respond in a timely manner. In Texas, this prevailing view has resulted in a guideline offered by the Texas Education Agency: a school district should have a portable classroom inventory not greater than 10 percent of the total number of permanent classrooms. Thus, a school district with 1,000 permanent classrooms should have not more than 100 portable classrooms. This “Texas Ten Percent Portables Guideline” is used because it appears to be the only independent and officially available guideline. It is used merely to differentiate the use of portable classrooms among the 10 largest school districts in Washington.

We observed the following use of portables in the 10 largest Washington school districts during the audit period:

Ratio of Portables to Classrooms

School District	Number of Classrooms	Number of Portables	Percentage of Portables
Edmonds	1,098	11	1.0%
Evergreen⁵	924	237	25.6%
Federal Way	1,033	98	9.5%
Kent	1,003	125	12.5%
Lake Washington	1,058	127	12.0%
Puyallup	847	220	26.0%
Seattle	2,595	202	7.8%
Spokane	1,370	90	6.6%
Tacoma	1,413	92	6.5%
Vancouver	933	53	5.7%

Use of portable classroom buildings in the school districts of Edmonds, Federal Way, Seattle, Spokane, Tacoma, and Vancouver were insignificant because their portable inventories are 10 percent or less of permanent

⁵ Evergreen has also constructed its own headquarters complex almost entirely of portable units.

classrooms. Two school districts – Kent and Lake Washington – are slightly above the 10 percent guideline of the Texas Education Agency. The Evergreen and Puyallup districts currently have 25.6 percent and 26 percent portables, respectively.

The school districts with a portables count above 10 percent of permanent classrooms are not necessarily at fault or careless in their handling of facilities planning. They have in large measure used portables because such action has presented the only apparent and responsive path to housing the increasing numbers of students. In addition, state construction funding processes and rules seem to have contributed to the use of portables by many districts with growing enrollments as well as a lack of success with the passage of bond referenda. It is therefore important to understand that some school districts have large numbers of portables out of necessity, and that possible changes in construction funding by Washington State could help such districts better manage their facilities inventories.

Since the issue on use of portables has implications across all Washington school districts, it is being examined not only with respect to the individual school districts, but also in regard to possible changes that might be affected by OSPI and the Washington Legislature.

Areas where current laws, policies and procedures impede the reduced use of portables in Washington include:

- Assessed property valuations vary significantly across Washington, placing some school districts at a gross income disadvantage compared to others;
- State matching funds for construction are based on construction costs so low that they have not been viable for nearly a decade;
- Bond passage requirements for a super-majority make it difficult for many districts to obtain the local approvals needed; and
- Some school districts face explosive growth in enrollment and the only viable response they have found is to use portables to house the extra students.

While it is recognized that school districts do not have control over assessed valuations, changes in enrollment, bond passage requirements or the availability of state matching construction funds, they should not be encouraged to use traditional portable classrooms as an acceptable, ongoing alternative to the construction of permanent school facilities







CRITERIA/ COMMENDATIONS

According to the National Center for Education Statistics, approximately 385,000 portable classrooms are in use by about 28,600 schools nationwide. Nationally, about six percent of classroom instruction is being taught in temporary structures. The Texas Education Agency has historically used the guideline that the use of portable classrooms should not exceed more than 10 percent of permanent classrooms.

In addition, several districts in our audit scope had minimal use or insignificant numbers of portables:

- **Edmonds, Seattle, Spokane, Tacoma, and Vancouver** are commended for their small inventories of portable classrooms compared to permanent classrooms.
- **Kent** is commended for working with new school designs that incorporate portables as an integral flexibility option, allowing the schools to expand, as needed, with changes in surrounding demographics.

RECOMMENDATIONS

<p>Evergreen #4</p> 	<p>Evergreen developed a 20-year plan for portables reduction. We recommend Evergreen revisit this plan to determine if it can be shortened, perhaps to 10 or 15 years. Once a determination has been made, the district should proceed with implementing the plan. Portables reduction should reach 10 percent of total classrooms or less.</p>
<p>Kent #4</p>  <p>Lake Washington #4</p>  <p>Puyallup #4</p> 	<p>These districts should, in the next update of their Strategic Facilities Plan, develop and implement a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms. For Puyallup, it is not expected that this plan can be implemented within just a few years: it may require 10 years or more because of the large number of portables they are currently using.</p>
<p>OSPI #4</p> 	<p>OSPI should conduct a review to identify viable long-term alternatives to traditional portable classrooms, such as more energy-efficient, more easily maintained modular products that are less prone to indoor air quality problems.</p>
<p>WA State Legislature #4</p> 	<p>A review is necessary at the state level to determine if the process to approve funds for planning, design, and construction is too lengthy and could be shortened. This would reduce the need and time for housing students in portables statewide.</p>

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATIONS

Although initial costs of portable classrooms are significantly less than permanent classrooms, there are associated costs to place them in service, as well as higher costs to operate and maintain. Typical costs associated with installation of a portable classroom include delivery and setup charges, permits, sidewalks and wheel chair ramps, utilities, lease agreements and removal costs. These costs can increase the initial purchase price by another 75%. Additionally, they are generally more expensive by \$1 per square foot per year to operate and maintain. The most energy-efficient portables cost about 2.5 times the national average to heat, cool and light compared to permanent school buildings. For example, the Mount Vernon News reported electric costs of a portable classroom in their local school district ranged from 20-30 cents per square foot while a permanent building structure's electric costs were only 5-7 cents per square foot. This means a district has more portables to heat, cool, clean and maintain than it should; and causes a district to spend more money than necessary in utilities, maintenance, and custodial services. In addition, portable classrooms may place an added strain on core facilities of the schools they serve (cafeterias, resource centers, gymnasiums, auditoriums, etc.). Finally, students in portables tend to be more isolated from other students, and indoor air quality problems can be an issue. Cost savings depend on the conditions at individual school districts, and will be offset initially by the cost of construction of new classrooms, expanded school core facilities, or new schools. A hypothetical comparison of annualized costs for portables and new construction⁶ follows:

⁶ Purchase cost includes the costs of making portable units ready for use. Figures noted here are hypothetical for comparison purposes only for a typical 62 x 42 building. Needs for each district will vary, such as the options needed for portable units, energy conservation measures in place (or energy efficiencies included in the portables), location of portables and their supporting facilities (restrooms, water, etc).

Item Description	Portable Unit (20-year life)	New Construction (40-year life)
Annual depreciation of purchase cost	\$5,166	\$5,192
Utilities	7,880	2,627
Operation and Maintenance	<u>6,728</u>	<u>5,191</u>
Total annual cost	<u>\$19,773</u>	<u>\$13,010</u>

It is important to note that acquisition of new construction or portables is funded with state and local capital funds, however, the cost of utilities, operations, and maintenance are funded with state and local operating funds. Therefore, the increased operating cost of portable units creates a burden on limited financial resources over the life of the building.

Potential Cost Savings

Cost savings are not quantifiable because they are dependent upon the conditions of each district and each school and must be offset initially by any costs of new construction for expanding core facilities or new schools or other relocation costs.

5. EXECUTIVE STAFFING LEVELS

Seattle School District’s executives, managers and supervisors are overstaffed compared to the other nine school districts.

BACKGROUND

We obtained and analyzed the staffing levels of managerial, supervisory, and executive positions within District Administration. For each of the 10 school districts under audit, we identified employees in certain position descriptions that are assigned to District-wide Support Services:

- **Deputy/Assistant Superintendent:** Performs system-wide executive management functions in the superintendent’s office of a district.
- **Other District Administrator:** Directs staff members and/or manages a function, a program, or a supporting service in a district. Includes administrative assistants, directors, supervisors, and coordinators of district-wide programs.
- **Director/Supervisor:** Directs staff members and manages a function, a program, or a support service. Includes directors or supervisors of food services, maintenance, transportation, data processing, etc.

OSPI publishes and maintains an accounting manual that prescribes how districts should account for various expenditures to programs they support, such as Educational Programs, Other Instructional Programs and Support Services. Since the audit scope was district administration, we identified salaries charged to District-wide Support Services, defined in the accounting manual as “expenditures related to the operations of a school district as a whole rather than any particular program.”

Seattle School District

The Seattle School District employs a significantly higher than average level of District Administration Executive/Managerial/ Supervisory personnel when compared to the other nine districts, based on an average ratio of these staff personnel to full-time enrollment.

During the 2005-2006 school year, the Seattle School District employed 39 percent more Executive/Managerial personnel than a 10-district average on a per full-time enrollment basis ratio.

Seattle does not have a policy or procedure in place to routinely assess managerial and supervisory positions’ staffing levels. Seattle’s excess building capacity (as discussed in Chapter 4), exacerbates its staffing level inefficiency by contributing Executive/Managerial/Supervisory level personnel.

CRITERIA/ COMMENDATIONS

We used and compared the 10 largest school districts’ ratio of school Assistant Superintendents, Other District Administrator, and Director/ Supervisor assigned to District-wide Support to full-time student equivalents, and computed the following ratios:

	10 District Average Ratio	Seattle
Ratio of staff to students	1 : 1,220 FTE	1 : 741 FTE

RECOMMENDATION

Seattle #5

Seattle should design, implement, and perform a routine analysis of staffing levels. It should identify or develop staffing level ratios used to monitor actual levels and adjust staffing levels accordingly.

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATION

Potential Cost Savings

When compared to the 10 district average staffing level, Seattle employed 39 percent more Executive/Managerial/Supervisory personnel as a ratio to full-time student equivalent, for the 2005-2006 school year, which translates to 24 personnel. Using Seattle's average salary for these labor categories, this higher than average staffing level cost the District an additional \$1.9 million for the 2005-2006 school year. However, Seattle's average salary is \$4,200 less than the 10 district average, which offsets the incremental staffing level costs by \$255,000 to \$1.7 million. The net result (of the higher than average staffing level offset by lower than average salary) is an incremental annual cost to Seattle of approximately \$2.1 million (\$1.7 million difference above plus related fringe benefits of \$430,000). Over a five-year period, this staffing level inefficiency will cost the District an estimated \$10.5 million.

6. HUMAN RESOURCES

Tacoma School District's human resource department has more managers and staff resulting in higher costs based on comparisons to the other nine school districts.

BACKGROUND

OSPI collects staffing information from school districts and reports this in a report titled the "S-275." One purpose of the S-275 report is for the OSPI to calculate staffing ratios and other information used as a basis for state funding. For the 2005-2006 school year, we obtained the S-275 database from OSPI.

Using the database, we found Tacoma's human resource department incurs a higher-than-average cost compared to the other nine districts. On a per full-time equivalent student enrollment basis, for the 2005-2006 school year, the Department expended approximately \$110 (adjusted to remove non-human resource costs charged in Tacoma's department) versus an adjusted average of \$64 for the 10 largest school districts.

Tacoma's department had 37 employees during the 2005-2006 school year, which is 39 percent more than the average staffing level in the human resource departments for the 10 largest school districts on a ratio of employees-to-students. This higher staffing level equates to an additional 14.60 employees at Tacoma. Based on Tacoma's average human resources salary, this higher-than-average staffing level costs an incremental \$943,795 in annual salary.


Moreover, of the 37 employees in Tacoma's human resource department, 22 percent were at a managerial level, whereas the managerial proportion of the 10 district average was 18 percent. These, HR managerial levels are disproportionately high in relation to district-wide managerial levels. Twelve percent of Tacoma's executive/managerial/supervisory personnel belong to the HR department, compared to five percent for the 10-district average.

An underlying cause is a lack of leadership in the human resource department. The department has operated without a departmental head, although a Director was recently appointed. Additionally, the District and the human resource department in particular, have not performed staffing level analyses on a routine basis.

CRITERIA

To compare staffing levels in the HR departments at the 10 largest school districts, we used the S-275 staffing data for the 2005-2006 school year and calculated a ratio of HR staff to students. The 10-district average ratio of HR staff to student was 1:1305. Tacoma's ratio of HR staff to students was 1:790.

RECOMMENDATIONS

Tacoma #6 	Tacoma should design and perform routine, comparative analysis of staffing levels and staffing level ratios to monitor actual levels and adjust staffing levels accordingly.
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POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATION

Potential Cost Savings

As a result of operating above the average of the other nine districts, Tacoma School District spends an additional \$46 per full-time student, costing \$1.7 million during the 2005-2006 school year (\$1,330,000 of salary and \$345,000 of related benefits). Over five years, this costs an estimated \$8.4 million.

7. INVENTORY CAPITALIZATION

Tacoma School District is spending unnecessary time recording and tracking low-ticket equipment that is remotely susceptible to misappropriation.

BACKGROUND

We reviewed the capitalization policy⁷ of all 10 school districts to identify the procedures followed for capitalizing assets, as well as the policies used to safeguard those assets. Nine of the 10 school districts were following Washington State's capitalization policy; capitalizing all assets with a unit cost of \$5,000 or greater. Tacoma's asset capitalization threshold was \$1,000.

Tacoma School District

Tacoma is spending unnecessary time capitalizing assets that do not need to be capitalized due to its low dollar value. As cited above, Tacoma had an asset capitalization threshold of \$1,000, which is below the \$5,000 capitalization standards set by Washington State and the recommended practice of the Government Finance Officers Association (GFOA). Approximately 90 percent of the assets currently being capitalized fall below state threshold. The individual responsible for reconciling capitalized assets and preparing the depreciation schedules spends nearly 20 percent of her time dedicated to this labor effort.

In addition, Tacoma is also spending unnecessary time tracking, for inventory purposes, capitalized items that fall below the \$5,000 threshold and are also not prone to misappropriation.

CRITERIA/ COMMENDATIONS

Regulation 6211R of the Tacoma School District Policy Manual describes the processes established for the District's fixed asset inventory system. Generally, the regulation addresses inventory management and asset capitalization and:

- Provides for the accountability of district land, equipment, vehicles, and portable buildings through effective recording, accounting, transferring, and disposing of assets.
- Establishes physical control and management of equipment, vehicles, and portable buildings.
- Provides for risk management records to ensure adequate and proper loss coverage for equipment, vehicles, and portable buildings.

In addition, the regulation identifies assets that fall under this regulation and includes assets that have a per unit cost over \$1,000 (the current capitalization threshold) or the unit cost is between \$300 and \$1,000 and the item is classified as being theft-sensitive. Finally, it established that principals and department administrators are responsible for the control of the property assigned to them. Tacoma's Purchasing Department has the accounting and accountability duties for operating the Fixed Asset Inventory System.

However, the GFOA recommended practice for establishing appropriate capitalization thresholds for capital assets is as stated:


⁷ The policy established by each district establishes dollar limits on purchases that will be classified as assets, thereby spreading the purchase cost over several years instead of those purchases that will be treated as expenditures in the year it is purchased.

GFOA recommends that state and local governments consider the following guideline in establishing capitalization thresholds: In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item.

All other school districts in our review have adopted Washington State's capitalization policy (State Administrative & Accounting Manual OFM 30.20.20) regarding inventory asset management:

All other capital assets with a unit cost (including ancillary costs) of \$5,000 or greater, or collections with a total cost of \$5,000 or greater, unless otherwise noted.

RECOMMENDATION

Tacoma #7 	Tacoma should adopt Washington State's capitalization threshold of \$5,000 and update Regulation 6211R to include this new threshold.
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POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATION

Potential Cost Savings

By adopting Washington State's capitalization standard, which most of the other nine largest school districts have done, the number of items capitalized will drop from 16,500 items to about 1,130 items. Based on this reduction, Tacoma estimates it will save 350 hours of labor annually (related to reconciling and depreciation schedules), which equates to labor savings of \$17,000 annually, or \$85,000 over five years. In addition, Tacoma will save time in asset management because it will no longer have to track items between the \$1,000-\$5,000 threshold that are not deemed theft-sensitive.

SUBSEQUENT EVENTS

On January 24, 2008, the Tacoma School Board passed a resolution that raised the capitalization threshold to \$5,000.

8. USE OF PURCHASING CARDS

Five of the 10 school districts can achieve greater economy, efficiency through increased use of purchasing cards.

BACKGROUND

Purchasing cards have emerged as a proven alternative payment method for reducing overhead costs for organizations, such as school districts, that predominantly deal with high-volume, low-dollar transactions. These transactions are commonly referred to as small purchases. Through the purchasing card program, school district personnel can acquire goods and services they need directly from vendors. Typically purchasing cards are used for purchases under \$2,500, however, purchases are subject to procurement limitations of the district and the purchasing card vendor.

The primary goal for establishing a purchasing card program is to promote processing efficiencies. For example, as the Tacoma School District reported on its Web site, “a typical district purchase order process involves 39 steps and 9 employees; a purchasing card process involves 12 steps and 5 employees” and the savings between the two processes averages \$67. Additionally, other authoritative industry analysts, such as the National Association of Purchasing Card Professionals (NAPCP), estimates of the transactional cost of the purchase order and payment process range from \$50 to \$250. The NAPCP reports that purchasing card efficiencies result in savings ranging from 55-90 percent of this cost. In addition, the NAPCP states that values go beyond transactional savings when the organization begins to realize the behavioral changes required to make purchasing cards work most effectively. Additional values include supply base consolidation; reinforcement of general purchasing best practices; a significant source of spend information; streamlining payees in the accounts payable system; and an opportunity for suppliers to streamline their processes.

While the use of purchasing cards eliminates procedures as noted above, purchasing cards are not always the best method for purchases. An optimal level (or at least a range) of purchases exists, which maximizes the benefits of the purchasing cards. Accordingly, industry analysts have determined that if entities commit 21.5 percent of their budget for supplies to purchasing card spending, a cost savings of 12.2 percent of those purchases can be achieved. The school districts cited below were not utilizing purchasing cards at a level that was providing them with the best opportunities to maximize savings while minimizing labor costs:

School District	Current Spending on Purchasing Cards ⁸	Budgeted spending for Supplies ⁹	Current Purchasing Card Rebate ¹⁰
Edmonds	9%	\$8,864,000	Negligible
Evergreen	11%	\$10,400,000	None
Lake Washington	6%	\$9,600,000	1.15%
Puyallup	5%	\$10,000,000	None
Vancouver	0%	\$8,600,000	.65%

⁸ Districts reported Purchasing Card spending (from its Purchasing Card vendor reports). Percentage here represents Purchasing Card reported spending as a percentage of total Object Code 5 (supplies) budget (from fiscal year 2006-2007 F-196 reports).

⁹ Total Object Code 5 (supplies) budget (from fiscal year 2006-2007 F-196 reports).

¹⁰ Purchasing Card rebate percentages were provided by each district, and represent each district’s current rebate rate. The districts in our review ranged from zero to 1.15 percent.

Edmonds stated that they do not actively promote purchasing card use because they want the user to purchase items in the manner that is best for them.

Evergreen's purchasing card vendor does not issue rebates to the District. The District realizes this shortcoming, yet no formal review of the purchasing card system has been performed for several years, however a review is scheduled for the 2007-2008 school year. This review will include an analysis of rebate factors.

Lake Washington is using purchasing cards for small purchases; however, they have not promoted the use of purchasing cards to all types of supplies. However, Lake Washington is currently receiving the largest rebate offered to all districts in our review. Lake Washington noted that they are planning to increase their purchasing card use in the future.

Puyallup's purchasing card vendor does not offer rebates. The purchasing card system was originally established by the School Board for emergency purchases; however, the District believes that it will start promoting the use of purchasing cards for other types of purchases. Puyallup also noted that their purchase order process is electronic, and therefore the time savings of using purchasing cards is not as significant as with other districts.

Vancouver established a purchasing card system and began using the program during the time of our fieldwork.

CRITERIA/ COMMENDATIONS

The RCW 43.09.2855: *Local governments*, allows for the use of purchase cards. Additionally, there are several entities that have produced guidance related to purchasing card use:

1. GAO's 2004 Report, *Agencies Can Achieve Significant Savings on Purchase Card Buys*, discusses the opportunities for agencies to obtain more favorable prices on purchase card buys that could yield hundreds of millions of dollars in savings.
2. The Florida Office of Program Policy Analysis and Government Accountability identified purchasing card usage as a best practice for school districts. In one example, OPPAGA stated that the predominant use of purchasing cards in a school district for purchases of up to \$500 would save nearly a quarter-million dollars over a 5-year period for the school district. In addition, the best practices documented with the school districts in Florida recommend that districts periodically evaluate purchasing practices to maximize use of human resources assigned to the purchasing function and use purchasing cards for small dollar purchases.
3. The NAPCP states that estimates of the transactional cost of the purchase order and payment process range from \$50 to \$250. Purchasing card efficiencies result in savings ranging from 55-90 percent of this transactional cost.
4. In May 2007, the Aberdeen Group published an authoritative research report on purchasing cards, *Global Commercial Payment Cards*. We spoke with the chief research editor and he corroborated the report's primary issue: If entities commit 21.5 percent of their purchase budget to purchasing card spending, a cost savings of 12.2 percent of those purchases can be achieved.

In addition to this industry research, several districts in our audit scope were using purchasing cards effectively and with optimal cost savings:



- The **Spokane School District** was the first school district in Washington to use purchasing cards. Spokane's purchasing card spending rate is over 50 percent of its available purchase budget, an outstanding usage rate that ranks as the leader of the 10 districts in this review. Spokane's rebates in the




last three years totaled \$140,000, the highest noted of all districts included in our review. Spokane also informed us that they save two full-time employees annually, or about \$150,000 per year.

- While purchasing cards are an effective means to achieve significant cost savings with small purchases, the **Seattle School District** opted to use what they referred to as the “B2B” system for their small purchases. As such, they were the only district in our review using this system. The benefit of the B2B system for Seattle was its ability to capitalize on small, recurring purchases from large wholesalers, such as Office Depot, at a highly discounted rate. Accordingly, for a four-year period, Seattle reported \$3.4 million in savings. This amount is similar to the amount of estimated cost savings other districts in our review could realize for a similar period with the aggressive use of purchasing cards. Included in this cost savings was the elimination of 1.5 full-time employees.
- The **Tacoma School District**’s use of purchasing cards represents about 25 percent of its available purchase budget of \$15.5 million, a rate above what industry analysts cite as needed to obtain meaningful cost benefits, and one that ranks them in the top third of districts included in this review.
- The **Kent School District** informed us that because of the labor costs they have saved by increasing its purchasing card spending, they have not filled an accounts payable position that became vacant upon the incumbent’s retirement last year.
- **Vancouver School District** began the initial use of their purchase card program in September 2007 and they are already reporting savings. (Training on the use of the card began in August 2007 with the first purchases beginning in September.) The dollar value of its monthly purchasing card purchases has grown to \$99,000 per month, and Vancouver has extended the use of the purchasing cards to items beyond supplies. These additional items include air fare, fuel, hotels, repair parts, maintenance supplies/materials, utilities (where accepted), and instructional materials. Making direct purchases allows personnel in Vancouver to take better advantage of local sales due to quicker processing. In addition, Vancouver is minimizing the use of local open purchase orders. This saves travel time for the purchasers in making purchases due to universal acceptance of purchasing cards. Finally, the implementation of the purchasing card program has allowed Vancouver to realize additional cost savings of three full-time employees; the District is reducing the purchasing department staff by one full-time employee, and reducing two full-time employees in the warehouse (one in the receiving department, one in materials handling).
- The **Lake Washington School District** participates in the Washington Association of School Business Officials (WASBO) purchasing card program that provides rebates to the District of 1.15 percent.
- The **Kent School District** is currently negotiating a rebate of 1.20 percent.

Note that four of the six districts commended, reported cost impacts involving at least one full-time employee and three districts reported cost impacts involving more than one full-time employee.

RECOMMENDATIONS

<p>Edmonds #8</p>  <p>Evergreen #8</p>  <p>Puyallup #8</p>	<p>We recommend these districts:</p> <ul style="list-style-type: none"> • Expand their purchasing card purchases to an optimal level. The districts should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of their available supplies budget for purchasing card use. • Consider participating in a purchasing card program that offers a competitive rebate allowance, such as the program available through WASBO, or a purchasing card program that offers similar or greater rebate benefits available
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 Vancouver #8 	<p>through other vendors.</p>
Lake Washington #8 	<p>We recommend the district</p> <ul style="list-style-type: none"> • Expand its purchasing card purchases to an optimal level. The District should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of its available supplies budget for purchasing card use.

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATION

Effective and efficient use of purchasing cards can result in both qualitative benefits and potential cost savings.

Qualitative benefits include:

- An ability to run reports on data spending patterns
- Increased knowledge of purchasing habits
- Built-in management controls to limit:
 - Dollar ceiling on single purchases;
 - Monthly spending;
 - Number of authorizations per day;
 - Number of transactions per cycle; and
 - The ability to obtain cash advances.

Potential Cost Savings

Quantitative benefits are achieved with the reduction of time and effort (required to purchase an item via a purchase order versus a purchase card) in several areas:

- The number of invoices processed.
- The number of purchase orders processed.
- The number of checks processed for “low-dollar, high-volume” invoices.
- The amount of time required to fulfill needs, such as the amount of time consumed at the schools to obtain various levels of approval for a Purchase Requisition. In addition, the mere process of an electronic purchase order system at the district central office does not necessarily mean that the district is minimizing the amount of steps to process a purchase order. As we noted in at least one district with electronic purchase orders, the levels of approval to requisition and order supplies at schools within that district were time-consuming.
- The amount of travel time for obtaining purchases (allowing teachers or others to purchase items from a nearby vendor) that is not subject to competitive bid requirements.

Additionally, purchasing card vendors typically offer rebates on purchases based on volume and turnaround time for payments.

We calculated the positive cost impact for each district if the district optimized its purchasing card spending, as well as use a purchasing card vendor with an aggressive rebate, such as the vendor offered through WASBO, or other vendors with similar benefits. Based on the districts current use of purchasing cards, the positive cost impact is:

	Positive Benefits Derived From		Positive Cost Benefit	
	Optimizing Rebate	Optimizing Usage ¹¹	Annual Savings	5-year Savings
Edmonds	\$20,000	\$638,000	\$658,000	\$3,300,000
Evergreen	27,500	634,000	661,500	3,300,000
Lake Washington	23,700	818,000	841,700	4,200,000
Puyallup	25,000	915,000	940,000	4,700,000
Vancouver	21,000	1,049,000	1,070,000	5,300,000

As noted by Puyallup, the amount of potential cost benefit is based on how efficient the district’s current purchase order process is. Puyallup has an electronic purchase order process, thereby reasoning that they could not capitalize on eliminating the type of steps that Tacoma referred to on its Web site to become more efficient. However, school level employees with whom we met spoke of time and labor inefficiencies associated with purchase orders. In one instance, a school employee stated that the automated purchase order system required her to pass through nine screens before completing her order. In another instance, a school employee indicated that some purchase orders require five levels of approval. Maintenance workers also spoke of levels of approvals. Finally, school employees indicated that numerous email exchanges are needed before a vendor is paid.

Auditor’s Additional Comment

Many of the districts’ responses indicate that the cost savings presented in this report are not attainable and are misleading. The districts indicate that achieving the cost savings reported would require significant reduction in staff in the procurement or accounting departments. It is important to note that the estimated cost savings include the value of the time spent by various staff performing procurement activities and the savings are realized when processes are eliminated or streamlined. Achieving an actual reduction of overall district expenses results from a combination of various factors including reducing staff time, eliminating unnecessary positions, reduction in direct costs (supplies, etc), and the allocation of staff time to functions that were previously not performed due to time constraints (that now improve internal controls or reduce costs in other areas).

¹¹ Estimated savings represent opportunity cost savings from a reduction in the amount of invoices, purchase orders and checks for "low dollar, high volume" invoices processed, as well as the amount of time required to fulfill the purchasing need, warehouse costs, and purchasing discounts.

STATE-WIDE INEFFICIENCIES AND SAVINGS OPPORTUNITIES

9. INEFFICIENT VERIFICATION OF CERTIFICATED EMPLOYEES

State requirements for school districts to document and evaluate teacher experience and education are inefficient and increase districts' administrative costs.

BACKGROUND

Public education teachers in Washington State must have a teaching certificate from OSPI, which is governed by the Washington Board of Education.

OSPI defines a certificated employee as a person who holds a professional education certificate issued by OSPI and:

- Is employed by a district in a position for which such certificate is required by statute, rule of the Professional Educator Standards Board, or written policy or practice of the employing district (WAC 392-121-200); or
- Is employed by a contractor in a position for which such certificate is required.

Or

- A superintendent or a person hired to fill a position designated as, or which is, in fact, deputy superintendent or assistant superintendent (WAS 392-121-200).

OSPI collects staffing data from the Washington school districts in and reports the data on a report titled, *S-275*. OSPI also publishes instructions in, *S-275 Personnel Reporting Handbook, Instructions for School Districts and Educational Service Districts*, for the school districts to report their personnel data annually.

As part of the S-275 data collection process, each certificated employee is assigned a staff-mix factor that represents the employee's education and experience level. One purpose of the S-275 and the staff-mix factor is to determine state allocation of funding to school districts for educational programs.

When an individual applies for a teaching position or position requiring a certificate in a state school district, the school district's HR Technician or Specialist (or comparable position) must review and verify the following records.

1. **Certification.** The HR Specialist must verify that the prospective employee has a current state teaching certification.
2. **Transcripts.** The prospective employee provides official transcripts for the HR Specialist to review.
3. **Clock Hours.** The prospective employee provides transcripts or other relevant documentation of courses taken.
4. **Experience.** Once hired, the district provides an experience form to the Certificated employee, who then submits them to previous employers to complete and return to the employing district.
5. **Background / Reference Checks.** The state requires fingerprinting and background checks.

Initially, the individual is placed at the lowest level on the schedule. Once the HR department receives and verifies each of the above items, the HR Specialist utilizes them to determine the certificated employee's place on the statewide salary schedule. For recent college graduates beginning their first job, this process for the HR Specialist is relatively easy since the individual, having no credit/clock hours or experience, begins at the lowest level on the salary schedule. If the verification process occurs after or continues into the start of the school year, and the individual is subsequently placed at a higher level on the salary schedule, a retroactive payment must be made to the individual. Depending upon the payroll system, the adjustment is made automatically (by the system) or manually (by a HR Specialist). A situation can occur where the certificated employee is placed at a higher level than appropriate, and subsequently determined that s/he should have been placed at a lower level. In such cases, the certificated employee reimburses the district. This situation is particularly problematic if the determination is made after October 1, the deadline for the S-275 personnel reporting, since the funding allocation from the state could be affected.

CRITERIA/ COMMENDATIONS

Washington Administrative Code 392-121-280 stipulates the minimum requirements that school districts must maintain regarding “documentation on file and available for review which substantiates each certificated instructional employee's placement on the Legislative Evaluation Accountability Program (LEAP) salary allocation documents.” It requires that the district document the following:



- Date of the highest degree
- Academic credits
- In-service credits
- Non-degree credits
- Certificated years of experience

Each school district must verify certificated employees’ credentials in order to determine appropriate salary levels from the statewide salary schedule. This process is manual, time consuming, and redundant, in particular when an individual transfers to a new district. For newly hired individuals, the HR Specialist must manually verify the required records: State certification, transcripts, credit/clock hours, experience, and background checks and fingerprints.

For existing teachers (returning to the district from the previous school year), the HR Specialist must verify credit/clock hours of a teacher’s completed continuing education.

For teachers moving to a new district, the verification process is redundant; each time a teacher transfers to a different district, the hiring district verifies the credentials even though the earlier district(s) verified them.

RECOMMENDATIONS

<p>WA State Legislature</p> 	<p>We recommend the Washington Legislature authorize and fund the development, implementation and maintenance of a centralized repository of certificated employees’ records.</p>
<p>OSPI</p> 	<p>We recommend OSPI, in collaboration with the Educational Service Districts and school districts, develop and implement a plan to centralize the acquisition and maintenance of certificated employees’ education and experience records.</p>

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATIONS

HR employees spend a significant amount of time monitoring and tracking the status of Certificated employees' documents and, upon receipt of them, verifying the information and determining the individual's placement on the salary schedule. In the 10 school districts, the HR employees estimated that they spend approximately 8.4 hours to verify the required criteria for each new certificated employee, and 1.6 hours annually, to verify the credentials for each returning certificated employee.

Potential Cost Savings

A study conducted in 2002 by the Northwest Education Research Center to assess the feasibility of implementing a centralized repository for Certificated employees' credentials estimated that the current process of verifying these records costs approximately \$2.5 million annually. (Note that this estimate is the cost for all Washington State districts, unadjusted to current-year dollars). We estimated the 2005-2006 annual cost of verifying certificated employees at the 10 largest school districts at \$1.3 million, or \$6.5 million over five years. However, implementation of a centralized repository would have initial start-up costs and on-going maintenance and support costs, which were not included in the scope of the audit.

DISTRICT ORGANIZATIONAL EFFECTIVENESS AND CONTROLS

10. STRATEGIC PLANNING

Four of the 10 school districts lack important elements of a strategic planning process that drives the direction of district goals.

BACKGROUND

Public education is continually changing. School districts can be reactive by responding as best they can to changes or they can be proactive by identifying sources both within and outside of the school system and developing a deliberate, well thought-out plan for dealing with those sources.

Districts should look into the future and try to anticipate opportunities and roadblocks that will affect preparing their students to be competitive. This is done by involving the entire educational community, including, but not limited to, the board of education, central office, teachers, support staff, families, students and community members in a well-structured strategic planning process.

Strategic planning can be defined as a process that determines the direction and goals of an organization over a number of years, its plan of progression and achievement and what defines its completion and accomplishments. Most strategic plans include variations of the following items:

- A mission statement that describes why an organization exists.
- Goals that must be reached in order to accomplish the organization's mission.
- Strategies that identify specific approaches or strategies that must be implemented to reach each goal.
- Specific action plans to implement each strategy.
- Process to monitor and update the plan.
- A performance measurement system, designed to monitor, analyze and document the district's performance in meeting instructional and operational goals.

Strategic planning serves a variety of purposes for an organization, including:

- Clearly defining the purpose of the organization, establishing realistic goals and objectives consistent with the mission that can be expected to be implemented in a defined time frame.
- Providing a clear focus for the organization and producing more efficiency and effectiveness.
- Communicating with the district's constituents to assist in establishing goals and objectives and providing valuable interaction with the public to promote the transparency and accountability of district operations.
- Ensuring the most effective use is made of the organization's resources by focusing the resources on the key priorities.
- Providing a base from which progress can be measured and establishing a mechanism for informed change when needed.

Federal Way School District

Federal Way's strategic plan is developed and revised annually in retreats attended solely by the Board and Superintendent. Solicitation of input from others in Federal Way and community is not a part of the process. Although the Board and Superintendent periodically review organizational effectiveness and structure, it is not a part of the strategic planning process. When asked how Federal Way seeks public and staff feedback for strategic planning purposes, answers from those interviewed reflected a belief that opportunities for input provided through comments at board meetings were sufficient. Some evidence is available that demonstrates the plan is used for

development of district procedures and documents such as the communications plan and as the basis of an annual progress report to the community.

The Superintendent and the Board limit input to the annual development/update of the strategic plan. The strategic planning process is limited by a lack of regular solicitation of input from a broad range of interested parties, both internal and external. Although the Superintendent recognizes the importance of communicating with Federal Way staff via weekly emails, processes are not in place to use that and other communication channels to solicit input as a part of the its annual strategic planning process. Public input was sought for development of the original strategic plan, but the process currently involves only the Superintendent and the Board. Yet, Federal Way staff interviews reflect a belief that ample opportunity for public input is provided through opportunities to address the board in public session regarding the strategic plan.

Kent School District

Although Kent conducts a number of planning efforts and produces a variety of plans including a Facilities Plan, a Technology Plan, and School Improvement Plans, it does not have a formal detailed district-wide strategic plan. Kent posts a one-page document on its Web site referred to as the District Strategic Plan: 2005-08. However, the document only lists Kent's three goals and five areas of emphasis. The one page document does not establish priorities, identify steps necessary to achieve the goals, assign responsibility for meeting goals, or include performance measures or benchmarks to measure what progress is made to achieve goals.

Kent has not established a policy or procedures that require a formal strategic plan to be developed following a traditional planning process that should include a step-by-step process for drafting the plan, situational analyses and diagnoses, goal-setting, action planning, budgeting and writing, and publishing the plan.

Puyallup School District

Puyallup originally developed its strategic plan with public input but has not continued to involve community or other district interested parties other than the Board, Cabinet, and Superintendent in the annual review process. Although Puyallup does review organizational effectiveness in executive sessions and is carefully examining an entirely new organizational structure with broad-based input in that goal, documentation does not demonstrate that the process is integrated into annual strategic plan review.

Although Puyallup provides documentation and testimony that it demonstrates awareness of both the need for community and district input into the strategic planning process as well as regular review of organizational effectiveness, no evidence was provided that shows it has integrated those into an annual strategic planning process. The strategic plan is developed exclusively by the Superintendent and school board members, although some input is obtained from cabinet members. School administrators receive the goals after their development for implementation, within their respective roles and responsibilities. For the past several years, Puyallup has used a budgeting process that educates and solicits input from community members, but does not demonstrate use of the same process for strategic planning for annual revision of strategic goals.

Puyallup did demonstrate a thoughtful assembly of public and district representation in the last "visioning" process that took place in fiscal year 2002-2003, but no similar activities are planned for at least another two years. Puyallup conducts periodic community surveys and the superintendent purposefully assembles groups from the public to discuss Puyallup's strengths and weaknesses; however, Puyallup did not demonstrate the link to and use of information gathered in strategic planning with documentation.

Tacoma School District

Tacoma School District does not have a formal strategic planning and updating process that ensures that a formal strategic plan is developed and reviewed annually. While a process was performed in 2006 that was similar to a

planning process, a formal document was not produced nor informally implemented. The new superintendent is aware of the process that was conducted and indicated he is considering revisiting the documents compiled, and may attempt to produce a formal document.

The District has not established policies and procedures that require a formal strategic plan to be developed that includes steps such as situational analysis and diagnosis, goal-setting, action planning, budgeting and writing and publishing the plan.

CRITERIA/COMMENDATIONS

The National School Boards Association (NSBA) Strategic Planning Toolkit states that, once a District has a mission and vision in place, it should “conduct an environmental scan.” The purpose of the scan is “to collect data to answer questions about the present and future of the school district.” It also:

- Develops a common perception.
- Identifies strengths, weaknesses, trends, and conditions.
- Draws on internal and external information.
- Is a key on-going process for internal and external honesty and openness to changing conditions.

Tools the NSBA cites for use in scanning the environment and soliciting public input include surveys, questionnaires, focus groups, and open forums. NSBA further states that “using the tools of politics, marketing, and communications, education reformers can build the public support needed to sustain their efforts to improve public education.” These tools include:

- Polls and focus groups to listen to the public, the customer.
- Brochures, newsletters, videos, radio and TV spots, web pages and other mechanisms to publicize messages.
- Community organizations for involving parents and other community members.
- Public relations and media relations (though districts often mistake these relatively limited tools as the whole tool kit).
- Strategic planning, to ensure all activities work well together and support priorities.
- Constant measurement and feedback to make sure your efforts are getting results.

As a means of building public confidence, NSBA advises that, in reaching out to the surrounding community for help in planning the future directions of the district, a school district should do three things:

1. Connect with all community members.
2. Gather community perceptions about district issues.
3. Use collected data to reexamine their long-term goals and strategic plans.

In *Strategic Planning: Educational Research and Improvement Clearinghouse (ERIC) Digest Series No. EA 41*, David Peterson states,

Authorities agree that everyone concerned with public education should participate in the planning process....A variety of formats encourages a variety of groups to take part. Board members might participate in the planning during a retreat, teachers during an inservice day, and students through a congress (Thomas E. Hart, author of Long-Range Planning: School Districts Prepare For The Future). The general public can articulate its concerns through public meetings and surveys. Some districts insist that community members constitute the majority of their planning committees to keep educators from dominating the planning process. Yet, as the American Association for School Administrators points out:

"Educators have responsibility to lead the community toward desirable educational goals, not just to cater completely to community desires.


William J. Cook, author of Bill Cook's Strategic Planning For America's Schools, asserts that "the planning team should consist of one-third to one-half administrators, with its remaining members drawn from a broad section of the school community." While this literature was developed in 1988, Cook remains in active practice and several districts (eg, Puyallup and Vancouver) in our audit are using this strategic model.




In NSBA's strategic planning tools, references are made to Washington State School Directors' "Passport to Leadership" materials in citing the importance of community input by the Board and Superintendent into strategic planning. Regular formal solicitation of input from all interested parties, including community representatives and district employees, into the strategic planning process serves numerous potential benefits to a school district. People in varied roles in the schools and the community have different perspectives on district decisions, priorities, and needs. They also abide in varied positions to be able to assess the impact of decisions and district priorities, providing the district a broader and richer variety of perspectives from which to identify and refine annual and long-range goals. When people in the community are involved in decision-making and have their thoughts sought, they better understand factors impacting district needs and decisions. They then become ambassadors to others in the community broadening the segment of the community who are well-informed of district needs and challenges. The communication role they play serves to create a greater sense of commitment to the district school system. When the public better understands decisions, needs, and challenges, there is greater support for education and local schools. That translates into heightened public support for levies the schools seek.

To ensure the district's organizational structure is well-aligned with its identified goals and objectives, annual strategic plan updates should include organizational effectiveness. In that way, district human resources are deployed so that it is appropriately staffed and tasked to efficiently and effectively address and achieve district goals. In that way, the district's organizational structure has no overlaps, and divides responsibility and work load equitably with balanced spans of control.


Vancouver School District is commended for its comprehensive strategic planning process that involves focus groups with many community members. Progress and involvement is regularly reported on the district's website as the process moves forward. The district's planning process even extends to succession planning for district continuity as key staff members retire, verifying a continuous focus on priorities and funding related to student achievement. At the time of the site visit, 1600 pieces of input had been collected from community forums with on-line surveys having solicited opinions and allowed input into decisions made to that point.




RECOMMENDATIONS

<p>Federal Way #10</p> 	<p>We recommend Federal Way expand the strategic planning and goal-setting process to solicit input from employees and interested parties from the community other than board members on a regular and consistent basis. Involving the community helps to build support and to ensure that diverse needs and viewpoints are included in future plans for the District. Engaging in these practices leads to increased community support for desired change and draws on local expertise in developing plans.</p> <p>Including an examination of the effectiveness of Federal Way's organizational structure will make the strategic planning process more cohesive. Federal Way's strategic plan is consistently used by central and school leadership to set and monitor goals through school improvement planning and learning plans. It has been effective and successful in closing achievement gaps addressing specific objectives. Implementing these recommendations would strengthen its ability to enlist more</p>
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	<p>people in goal achievement and create wider commitment to the goals throughout the schools and community. Tying that to the planning process would refine position allocation to ensure that the District’s structure supports the achievement of annual goals.</p>
<p>Kent #10</p> 	<p>We recommend Kent develop a formal district-wide strategic planning process that creates a traditional formal strategic plan with detailed strategies to achieve goals and objectives that coordinates all program areas. Comprehensive strategic planning initiatives should include participation of the board, superintendent, administration staff, principals, teachers, students, and community members. Strategic planning processes normally begin with a board strategic planning retreat using a facilitator to develop agreement on the District's vision, long-term goals, objectives, implementation initiatives, timelines, and responsibility assignments. In developing long range plans, particular attention should be paid to demographic changes, shrinking financial support, necessary changes to curricula, and the recruitment, training, and retention of effective teachers.</p>
<p>Puyallup #10</p> 	<p>We recommend Puyallup extend the annual strategic planning and goal-setting process to incorporate the input they obtain from employees and community members. This process should occur on a more regular basis than is currently practiced, and include in annual strategic planning discussions an examination of the effectiveness of Puyallup’s organizational structure. Puyallup has a sound foundation for strategic planning and obvious commitment to the process. Implementing the recommendation would strengthen that foundation and extend the base of staff and community members who could contribute to the process and its success. Principal and community involvement would enrich goal-setting, heighten their commitment to Puyallup goals and, thus, increase opportunities for goal achievement.</p>
<p>Tacoma #10</p> 	<p>Building off the results of the work in their 2006 process and the District Improvement Plan for 2007-2008, we recommend Tacoma develop a strategic planning process that creates a traditional formal strategic plan with detailed strategies to achieve goals and objectives. Comprehensive strategic planning initiatives should include participation of the board, superintendent, administration staff, principals, teachers, students, and community members. Strategic planning processes normally begin with a board strategic planning retreat using a facilitator to develop agreement on Tacoma’s vision, long-term goals, objectives, implementation initiatives, timelines, and responsibility assignments. In developing long range plans, particular attention should be paid to demographic changes, shrinking financial support, necessary changes to curricula, and the recruitment, training, and retention of effective teachers. Tacoma should also develop a formal policy that requires an annual review of the plan and to update where necessary.</p>

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATIONS

<p>Federal Way #10</p> 	<p>The goals of the strategic plan reflect district priorities from the perspective of Federal Way’s Board and Superintendent, rather than a broader perspective of district staff and community members. Consequently, the goals serve as the basis for work and conversations with school and district staffs, but are not formally developed with their input or that of the larger community beyond its representative board members. As a</p>
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	<p>result of their exclusion from the planning process, the views, ideas, and perspectives of people throughout the community and in all responsibilities of the school system are not purposefully reflected in goals and objectives. Their lack of involvement limits the number of people throughout the entire district/local community who understand the development process, and can thus, better contribute to goal achievement. Without a formal process for gathering feedback from principals about how the District can achieve its goals, the district lessens its ability and the principals' commitment to do so.</p>
<p>Kent #10</p>  <p>Tacoma #10</p> 	<p>Without a formal strategic planning process that creates a formal long-term plan, the Districts do not have defined goals and objectives on which to establish priorities and specific implementation strategies. The lack of a long-term strategic plan creates a situation where the Districts do not have formal goals to guide their instructional, financial, technology and facilities programs. Although the Districts may take actions to improve programs, they become random acts of improvement that are not tied to the organization's improvement as a whole, causing the overall improvement of the Districts to be less cohesive.</p>
<p>Puyallup #10</p> 	<p>The annual strategic planning process is limited in both scope and commitment through involvement in the process, to Puyallup's goals, without the use of frequent and regular solicitation of input from a broader range of internal and external stakeholders. Without that, the views, ideas, and perspectives of people throughout the community and in all responsibilities of the school system are not necessarily reflected in annually revised goals and objectives. Limited involvement in goal-development/ revisions minimizes the number of people throughout the entire district and local community who understand, are committed to, and can contribute to goal achievement. Principals noted that Puyallup has been responsive to their requests for earlier school planning and that they are informed of goals before school begins. However, they are key players in achievement of Puyallup goals and have unique experience and perspectives that is not concertedly sought prior to and throughout the process.</p>

SUBSEQUENT EVENTS

Tacoma completed a District Improvement Plan for 2007-2008 in January 2008, after the completion of our fieldwork. The plan identifies goals, strategies, and activities for the remainder of fiscal year 2007-2008, but it lacks many components of a multi-year strategic plan.

11. FINANCIAL MANAGEMENT AND COST ANALYSIS

School districts need an accurate picture of the cost to operate programs in order to assess whether those programs are efficient and economical.

BACKGROUND

Sound financial management and cost analysis serve two objectives. They provide accountability and comparability.

- *Accountability.* Unlike most private sector organizations, government entities must be responsive to a number of different groups and organizations, including elected officials, other government bodies, bond analysts, creditors, legislators and citizens who are focused on monitoring their activities and financial results. Government entities must be responsive to these groups in order to demonstrate their accountability over public funds. The National Center for Education Statistics notes that accounting for expenditures by type of expenditure (salaries, supplies, etc.) are the foundation for reporting financial data; and that the needs of others extend beyond expenditure classification to school and program reporting levels.
- *Comparability.* Because the majority of governmental entities are not in business to make money, analyzing the “bottom line” is not relevant. However, careful review of revenues and expenditures becomes even more important. Financial information must be prepared accurately and consistently for users to compare their financial results to prior years, to similar organizations, or industry standards or benchmarks.

For school districts to achieve the objectives of accountability and comparability, financial information must be both relevant and reliable for reasonably informed users. Financial reports must satisfy numerous and diverse needs or objectives, including short-term financial position and liquidity, budgetary and legal compliance, and issues that have a long-term focus such as capital budgeting and maintenance. Additionally, differences exist in the amount of detail that various users need.

The Governmental Accounting Standards Board (Board) defines financial reporting as the means of communicating financial information to users. For this communication to be effective, financial information must have the following basic characteristics:

- *Understandability.* Information should be simple but not oversimplified. Explanations and interpretations should be included where necessary.
- *Reliability.* Information should be verifiable and free from bias. It should be comprehensive; nothing should be omitted that is necessary to represent events and conditions, nor should anything be included that would cause the information to be misleading.
- *Relevance.* There must be a close logical relationship between the information provided and the purpose for which it is needed.
- *Timeliness.* Information should be available soon enough after the reported events to affect decisions.

- **Consistency.** Once a principle or a method is adopted, it should be used for all similar events and conditions. If a principle or a method has changed, the nature and reason for the change, as well as the effect of the change, should be explained.
- **Comparability.** Procedures and practices should remain the same across time and reports. If differences occur, they should be due to substantive differences in the events and conditions reported rather than arbitrarily implemented practices or procedures for data collection.

Currently, Washington school districts do not have a complete and accurate financial picture of their programs or functions. This does not mean that costs associated with each program are not reviewed and carefully monitored throughout the year. Additionally, each district can point to aggressive steps they are taking to cut budgets and reduce costs in all areas. However, without accurate cost accounting for each project, it becomes increasingly difficult to assess and compare programs or departments and determine any areas that can afford budget cuts.

There are several factors that limit Washington school districts from creating an accurate financial picture of individual schools or programs:

- Districts are not required to follow generally accepted accounting principles. Those principles require entities to accrue for known revenues and expenditures, regardless of whether the cash was received or paid. Additionally, it requires long term assets to be depreciated over their useful life, instead of expensed in the year it was purchased. The accounting principles were created to provide for more accurate and comparable financial information to the users. The majority of school districts within the state do not prepare financial information in accordance with those principles. Districts do provide annual financial information to OSPI that is accumulated into the F-196, Annual Financial Statements, which recognize certain revenues and expenditures on a modified accrual basis; however, those financial statements do not identify costs by fund or department, or attempt all the requirements of generally accepted accounting principles.
- Indirect cost allocation plans inequitably allocate indirect costs to individual programs. The best example of inequity of indirect costs to programs is in the food service program. Because the food service program is a revenue-generating program, districts treat the program differently than other programs, and make attempts to allocate certain indirect costs (such as transportation or custodial services) to the program, while others identify an annual amount that the food service program must ‘contribute’ to the general fund to effectively ‘cover’ those expenses. However, in each case, the end result is inequitable (because of the subsequent allocation of indirect costs from the cost allocation plan) or misleading (identified amounts that the program ‘contributes’ to the general fund are viewed as net income).
- Districts are not authorized to use enterprise funds. The use of enterprise funds allows the districts to separately account for the assets and liabilities of different programs, and track year-to-year results as well as cumulative fund balances. Current state law prevents school districts from accounting for their business-type activities in enterprise funds. Preparing off-line accounting records to separately track funds would require additional accounting efforts.

The 10 school districts we reviewed do not currently perform significant routine analysis that involves comparing their current costs to projected costs using different operational models. While the most common example of a change in operational model would be outsourcing a function such as food service or pupil transportation, there are a variety of other operational models that should also be included, such as food service central kitchens versus on-site kitchens, using conventional versus convenience food preparation, and using warehouses for supplies versus a vendor delivery system. Each method has advantages and disadvantages that need to be analyzed using

the specifics of each district. Comparing a district's current costs using one method to another district that uses another method would not result in effective analysis.

There are also several factors that discourage districts from performing routine and comparative cost analysis of various departments or programs:

- State law specific to school districts may hinder their ability to contract out for operations. RCW 28A.400.285, relating to outsourcing, requires a full cost-benefit analysis and requires that the affected bargaining units participate in the feasibility study. Prior to the law's passage, many districts in our review performed cost analyses that involved outsourcing, and many successfully outsourced programs or departments.
- Some districts believe their food service programs are self-sufficient and therefore there is no need to research different operational methods.
- Districts review expenditures annually when budgets are prepared, and attempt to find ways to cut costs during that review.

CRITERIA/ COMMENDATIONS

There are several governmental entities and research bodies that articulate the need for creating an accurate financial picture for all programs and departments in school districts, financial information using generally accepted accounting principles, and periodic analysis of various programs and departments to enhance optimal performance and reduce costs.

Accurate financial picture. In addition to having accurate and complete financial data for management decisions and communications to the community and interested parties, there are compliance issues that also regulate the need for accurate financial information. For example, the U.S. Department of Agriculture requires (7 CFR 210.14, Resource management) all revenues and expenditures of a school district's food service program to be evaluated to determine if any net revenue was generated from the program. Any net revenue from a food service program must be used for the operation and improvement of that program in future years. Without knowing the true financial picture of the food service program, districts may not be able to show compliance with this regulation. Additionally, without the use of enterprise funds or similar information maintained in an ancillary system, it is impossible for districts to track any cumulative fund balances of the program from year to year.

The National Center for Education Statistics further states that generating complete and accurate information by a district involves identifying direct and indirect costs attributable to schools and programs and that cost accounting procedures must be applied to obtain an appropriately structured accounting system.

Financial information using generally accepted accounting principles. The Governmental Accounting Standards Board (Board) is an organization that establishes standards of financial accounting and reporting for U.S. state and local governments. These governments recognize the Board as the official source of accounting principles for state and local governments. The Board does not have enforcement authority to require governments to comply with its standards. However, compliance with the Board's standards is enforced through the audit process, when auditors render opinions on the fairness of presentations in conformity with accounting principles, and through the laws of individual states, many of which require local governments to prepare financial statements on the basis of generally accepted accounting principles. In addition, the bond industry prefers that governments issuing debt prepare their financial statements on this basis.

Periodic Analysis. Also Office of Program Policy Analysis and Government Accountability identifies "Best



Financial Management Practices” and recommends that districts should regularly evaluate the performance and cost of their major educational and operational programs and analyze potential cost savings of alternatives, such as outside contracting and privatization. The district should be able to demonstrate:

- It conducts a cost benefit analysis of its major educational and operational programs.
- It evaluates the potential of alternative service delivery methods to save costs. The alternative service delivery method may include contracting out specific tasks or privatizing.

In addition to the policy guidance, we noted several school districts in our review that have attempted to allocate indirect costs to different programs (primarily food service), as well as perform cost analysis of different operational models that resulted in significant cost savings:

- Puyallup’s food service department has carefully reviewed those costs that support the food service program, and have reallocated those costs directly to the food service department. The Food Service Director noted that allocating these supporting costs directly to the financial statements of the food service department provide a more accurate financial picture of the department. However, she believes that the bigger benefit of these allocations is the ability to be responsible and accountable for all program costs¹².
- Seattle conducted a pupil transportation cost analysis study that revealed a potential cost savings range of \$48.4 to \$84.4 million over 10 years from outsourcing pupil transportation.
- Edmonds performed a cost analysis for the printing department and found that it will be able to reduce district staff salaries by \$197,875 and create different district positions by converting \$111,156 in staff salaries once the print shop function is completely replaced by outsourcing.
- Edmonds also performed a cost analysis and determined that it could consolidate their warehouse functions. Doing so saved them \$100,000 annually in lease costs.

RECOMMENDATIONS

<p>OSPI #11</p> 	<p>In order to more accurately capture program cost, we recommend OSPI, in collaboration with the state Legislature, allow for the optional use of enterprise funds to account for the school districts’ business-like activities. Additionally, we recommend that OSPI prescribe the use of cost accounting in the Schools Accounting manual.</p>
<p>WA State Legislature #11</p> 	<p>To more accurately capture program cost, we recommend the Washington Legislature authorize the optional use of enterprise funds to account for the school districts’ business-like activities.</p>

¹² Unfortunately, there is a drawback to this aggressive allocation of costs to programs or departments, because Puyallup’s district-wide indirect cost rate is still applied to all program costs when the costs are reported to OSPI and the 1800 report is prepared, thus making Puyallup’s food service program appear more costly than it actually is.

Edmonds #11



Evergreen #11



Federal Way #11



Kent #11



Lake Washington #11



Puyallup #11



Seattle #11



Spokane #11



Tacoma #11



Vancouver #11



We recommend the districts:

- Consider implementing the Governmental Accounting Standards Board's statements for its business type activities¹³.
- Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs.
- Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods.
 - Based on the accurate current financial picture of the program or department. As previously discussed, districts do not have a true financial picture of the food service operations because indirect costs cannot be clearly allocated. This issue will affect all areas of analysis.
 - Performed by the budget or accounting office (or with their supervision) to ensure that indirect costs are properly attributed to the program, and that any changes to labor rates, or other costs are properly addressed (such as upcoming bargaining unit adjustments, or increases to borrowing rates).
 - Tailored to the specific needs and constraints of the districts. Things such as sunk costs for facilities, long-term labor agreements, or the inability to obtain capital funding must be factored into each analysis.
 - Performed on a periodic basis (of no more than 5 years) and also when significant changes occur (i.e. enrollment changes, increase in current costs, etc).
 - Quantitative as well as qualitative. The assessment must acknowledge that there are other factors such as the quality of services, community perception, and other non-cost factors that must be considered when making operational choices.

Districts have available resources to assist them in these analyses. Educational Service Districts often have cost studies or available research on different operational methods. Additionally, vendors often have cost analyses or will prepare customized analysis for little or no cost.

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATIONS

The districts, as well as the OSPI and the State Legislature can benefit from a more accurate financial picture of their schools and programs. The National Center for Education Statistics noted several benefits of cost accounting and implementation of the standards issued by the Governmental Accounting Standards Board:

¹³ A change of current state law has to occur in order for the districts to be able to implement this portion of our recommendation.

- **Using data to influence decision-making.** Good decisions are based on inquiry and analysis. Information technologies are available to make good decision-making possible for school-based administrators, as well as for external users of education information, such as legislators and patrons.
- **Using data to target specific areas for improvement.** Timely and accurate data can help decision makers at all levels focus on improvement strategies.
- **Classifying data into subgroups to examine wide-ranging goals.** Separating data into subgroups for analysis, helps identify programmatic and fiscal inequities and determine what the baselines for improvement should be.
- **Using data in rapid program evaluation.** To have an impact, program evaluation must be timely as well as complete. When program and other data are compiled and linked in an accurate and well-designed retrieval system, the goals of schooling can be more effectively and efficiently met.
- **Using data for budgetary control.** Greater control and more informed decision-making are possible when all costs of school operations are available.
- **Using data to examine relationships between cost and effectiveness.** Information technologies allow graphic representations of these data.
- **Using data to improve administrative time management and mandated reporting.** When core databases are built around the National Center for Education Statistics Common Core of Data Elements, improvements in administrative efficiency and time management can be significant.

One of the important uses of accurate financial data is for comparability purposes. There are an infinite number of ways that financial data can be analyzed using historical data, industry data and “what-if” scenarios. All cost analysis can be valuable, but in the government sector, especially in entities such as school districts that are subject to rigorous cost scrutiny, the ability to respond to the public and other groups as to why they operate under certain conditions or models is critical to public acceptance, which in Washington State is critical to funding approvals and other school district actions.

Finally, districts can track the year-to-year financial results and fund balance of programs such as food service that generate revenue and include federal requirements for the distribution of such revenue.

12. FUND BALANCE MANAGEMENT POLICY

Vancouver School District’s lack of a fund balance management policy has resulted in a notably low fund balance.

BACKGROUND

A district’s fund balance is the difference between its assets and liabilities, and is typically made up of two parts — reserved and unreserved fund balance. The reserved fund balance represents resources that cannot be appropriated and spent (such as inventory) or that are legally limited to being used for a particular purpose. For instance, grant money from the federal government that may only be used for building schools would be reported as reserved fund balance in the general fund or a broad capital projects fund.

The portion of fund balance that is not reserved is appropriately called *unreserved* fund balance. It represents resources that can be used for any purpose, such as repaying outstanding debt, or daily operations.

Reserved Fund Balance v. Unreserved Fund Balance	
Assets	Liabilities/Equity
Current financial resources	Certain near-term liabilities
	Designated unreserved fund balance
	Undesignated unreserved fund balance
Financial resources not yet available for spending (e.g., long-term loans receivable)	Reserved fund balance
Assets classified as financial resources that represent amounts already spent (e.g., certain inventories and prepaid expenses)	
Financial resources that are legally restricted or committed (e.g., encumbrances for purchase orders (PO))	

- A** = Subject to tentative management plans
- B** = Available for spending ("appropriable")
- C** = Not available for spending

It is essential that school districts maintain adequate levels of unreserved fund balance to handle daily operations as well as mitigate current and future risks; therefore unreserved fund balance levels are a crucial consideration in long-term financial planning. Accordingly, all districts should establish a formal policy on unreserved fund balance for all their governmental funds.

A large portion of Washington School Districts’ revenues are based on funding formulas that are tied heavily to enrollment numbers of which fluctuations can be hard for the school districts to predict. This facet of funding for school districts makes it particularly important for school districts to maintain adequate levels of unreserved fund balance to meet the annual fiscal needs of the district.

We reviewed the fund balance management policies from each of the 10 largest Washington School Districts. We conducted interviews with the districts and performed analysis to determine the level of unreserved fund balance

as a percentage of total operating expenses. From this information, we then determined how the current unreserved fund balances are affected by the districts' fund balance management policies (or lack of a policy).

Vancouver School District

According to the District's audited financial statements, Vancouver has a significantly low unreserved fund balance. Its unreserved general fund balance represents 1.61 percent of total operating expenditures for the fiscal year ended 2006. The ratio of unreserved fund balance to total operational expenditures has gone down 67 percent over the three fiscal years leading up to 2006, from a level of 4.93 percent. As a result, Vancouver has enough in its unreserved fund balance that equals the expenses needed for five days of operation. For the past several years, Vancouver has been supplementing basic education by using levy dollars and depleting its Unreserved Fund Balance. When the state has given cost-of-living increases to teachers, the District has granted the cost-of-living increase to all staff members with funds from the District's fund balance and local levies.

The Vancouver school board has not approved a formal, written fund balance management policy defining the District's process for planning and monitoring its fund balance. The lack of a board directed policy for maintaining appropriate levels of unreserved/undesignated fund balance has resulted in the District's use of those funds for district operations.

CRITERIA/ COMMENDATIONS

While the level of unreserved fund balance at any district should be based upon the district's own specific circumstances, the Government Finance Officers Association (GFOA) recommends, *at a minimum*, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than 5 to 15 percent of general fund operating revenues, or no less than 8 to 17 percent (i.e., one to two months) of general fund operating expenditures. Additionally, the Washington Association of School Administrators (WASA) recommends a minimum fund balance of 5 percent of general fund operating expenditures.

A district's particular circumstances may demand levels of unreserved fund balance in the general fund significantly in excess of the minimum levels just described. The district should consider the predictability of revenues and volatility of expenditures, the availability of resources in other funds as well as the potential drain upon general fund resources from other funds, the district's liquidity, and level of designations made to the unreserved fund balance.

Furthermore, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis on the level of unreserved fund balance in the general fund at any one time.

During our performance audit, we noted several districts that have been able to use their fund balance management policy to guide them in establishing an adequate level of unreserved fund balances. They are listed in the following table in relation to Vancouver School District:

School District	Unreserved Fund Balance ¹⁴ (FY 2006)	Fund Balance Policy Adopted By Board
Kent	11.82%	Feb 2003
Tacoma	8.83%	Feb 2002
Seattle	14.13%	Sept 2003
Puyallup	7.27%	Apr 1998
Vancouver	1.61%	None

RECOMMENDATION

Vancouver #12



We recommend Vancouver establish a formal policy on the level of unreserved fund balance that should be maintained in its general fund. Such a guideline should be set by the policy approved by the school board, and should provide both a temporal framework and specific plans for increasing or decreasing the level of unreserved fund balance, if it is inconsistent with that policy. Since unreserved fund balance often is subject to unexpected fluctuations, a well designed policy will provide specific guidance on what actions a government should take (and over what period) to adjust unreserved fund balance to appropriate levels if it falls outside of predetermined parameters as the result of such fluctuations.

Any policy addressing desirable levels of unreserved fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints.

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATION

With such a low level of unreserved fund balance, Vancouver does not have the resources necessary to meet unexpected needs. The absence of sufficient fund balance could result in having to borrow funds to meet cash flow needs, which has a related interest cost. The lack of a reasonable fund balance along with a stable trend in the level of fund balance is viewed adversely by the bond rating agencies. This affects Vancouver and the local taxpayers with much higher interest costs on bonds that are issued.

¹⁴ Includes both designated and undesignated unreserved fund balances.

13. INTERNAL AUDITOR FUNCTION

School districts do not fully use internal auditors to make administrative operations more efficient and economical.

BACKGROUND

The U.S. Government Accountability Office states officials entrusted with public resources are responsible for carrying out public functions, including administrative operations, legally, effectively, efficiently, economically, ethically, and equitably. They are also responsible for establishing and maintaining effective internal controls and compliance with applicable laws and regulations. The concept of accountability for use of public resources and government authority is essential to the governing process. Internal auditors play an important role in fulfilling these responsibilities.

The procedures used by an internal auditor can appear very similar to procedures performed by the State Auditor's Office; however the objectives and outcomes of the work of an internal auditor are significantly different. An internal audit function in many entities has concentrated on using resources effectively, efficiently and economically. This department, adequately organized, can improve internal control systems, provide valuable recommendations for improvements to school district efficiencies, identify ineffective procedures, and result in direct cost savings for the district. For example, the internal audit function at Tacoma has issued several performance audit reports since 2002 that have identified, among other audit results, over \$200,000 in cost avoidances relating to a transportation contract; approximately \$3,800 in lost interest-earning opportunities, and lost opportunities for state revenue due to faulty submission of student enrollment data.

In general, performance audits performed by the internal audit department can encompass a wide variety of objectives, including providing prospective analyses, guidance, or summary information. Auditors who are internal to an entity or organization are well-suited to conduct performance audits. In addition, under ideal circumstances, the organization's internal auditor conducts performance audits for the organization based on some form of risk approach.

With the exception of the Kent, Seattle, and Tacoma school districts, the districts did not have an internal audit function. However, each had various individuals who perform similar functions. Additionally, the Kent and Seattle School Districts did not structure their internal audit department to have organizational independence.

Edmonds School District

Edmonds has internal-audit-like functions being performed in various components within the Business Office (such as quality control self-assessments and reviews). However, as noted above, there is no organizational independence, and the functions performed are not developed using a risk-based approach. Finally, the plan and results of any reviews are not presented to the Board. Edmonds believed that the work being done by the Business Office was equivalent to the types of audits that an internal auditor would perform and that the work is of the same quality, even though no organizational independence exists.

Evergreen School District

The Chief Financial Officer (CFO) and his staff perform quality control self-assessments and audits in Evergreen. The District also employs a fiscal manager who is solely dedicated to perform audits of time and effort among various district operations. However, there is no risk-based audit plan. A formal internal auditor position has not been funded because of Evergreen's preference for hiring teaching positions.

Federal Way School District

In Federal Way, various individuals perform internal audit-like functions, but the District does not take a risk-based approach to the audits.

While Federal Way management stated that they have no funding for an internal audit position, they also stated that they perform many functions of an internal auditor within various departments, such as grant compliance and billing coordinators. Additionally, they believe it would be difficult to have one person in charge of internal auditing and be successful at understanding, monitoring, and reporting on all of the Federal Way management systems and internal activities. Instead, management prefers to have various staff held accountable for assessing individual operations.

Kent School District

In Kent, the internal auditor is not organizationally independent and reports to the Executive Director of Finance. The auditor is primarily responsible for reviewing school office processes and district accounting operations. As such, Kent focuses on Associated Student Body (ASB) activities and issues related to misappropriation, audits that Kent views as high risk. In addition, to its credit, Kent has resisted budget pressures to eliminate the position of internal auditor. However, the District has a limited view of the benefits of the internal auditor's role, not envisioning the function with the type of broad scope that requires a separate, independent reporting line to the Board or audit committee.

Lake Washington School District

Lake Washington has an Internal Controls Accountant who audits cash processes only, and does not follow any audit plan that addresses risk. Lake Washington stated that the responsibilities of its Internal Control Accountant are not of the scope and type of an actual internal auditor who requires a reporting line to the school board.

Puyallup School District

In Puyallup, individuals in the accounting department have some functions that could be viewed as "internal audit." Puyallup views the ASB fund as posing a significant risk and they subsequently spend time and effort auditing in that direction. However, beyond ASB, Puyallup does not use a risk-based approach to auditing. Puyallup does not wish to have a classic internal auditor function because they do not feel it is cost effective given all of their other priorities.

Seattle School District

In Seattle, the Internal Auditor currently does not report directly to the board of directors, but rather to the Chief Financial Operating Officer. The Internal Auditor, hired in 2007, does not have a risk-based audit plan, but is working on developing one. He has identified some audit risks, such as student funds, donations, assets, site-based funding, and attendance.

During the audit timeframe, Seattle was working to create an Audit Charter and had the recently hired Internal Auditor report to the Finance Committee of the Seattle School Board (while maintaining a reporting relationship for administrative purposes to the Chief Financial Operating Officer). The Audit Charter is still being reviewed by the Finance Committee and has not yet been formally adopted.

Spokane School District

In Spokane, there is no audit plan based on risk and an Internal Controls Accountant performs many programmatic roles besides auditing. Because of budget constraints, Spokane management must use its Internal Controls Accountant in several capacities besides auditing. Moreover, Spokane maintains it has no funding for the position of internal auditor.

Vancouver School District

Vancouver does not have a full-time internal auditor. The internal audit function has been staffed by a 60 percent employee in the past. In 2007, the person fulfilling the internal audit function was reassigned to the Food Service Department and is helping with a computer system conversion.

Vancouver agrees that if it had the resources for a full-time internal audit position, it would be important that the position be independent. However, the board only has one direct report, the superintendent, and therefore, Vancouver would need to have the auditor report to a cabinet member for administrative purposes (i.e., Vancouver legal counsel). Reports could be presented directly to the audit committee.

CRITERIA/ COMMENDATIONS

There are many documents and regulations that describe (or prescribe) the use of an internal auditor along with the way an internal audit department functions, including their operational independence. In the State of New York, school districts with 8 or more teachers, expenditures more than \$5 million in the previous year, or student enrollment over 300 are required to have an internal audit role to help ensure a prudent use of taxpayer dollars, provide a sound internal control structure and safeguard district assets. Four such criteria are noted below: Government Auditing Standards, Institute of Internal Auditors, Auditing Standards Board, and American Institute of CPAs.

1. Generally Accepted Government Auditing Standards

GAGAS contain the following provisions with respect to organizational independence for internal audit functions:

Under GAGAS, a government internal audit function can be presumed to be free from organizational impairments to independence for reporting internally if the head of the audit organization meets all of the following criteria:

- a. Is accountable to the head or deputy head of the government entity or to those charged with governance;
- b. Reports the audit results both to the head or deputy head of the government entity and to those charged with governance;
- c. Is located organizationally outside the staff or line management function of the unit under audit;
- d. Has access to those charged with governance; and
- e. Is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal. (Paragraph 3.16)

The internal audit organization should report regularly to those charged with governance. (Paragraph 3.17)

2. Institute of Internal Auditors

Organizations should effectively use internal auditors, ensuring the adequacy of their independence, resources, scope of activities, and effectiveness of operations.

An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their government accountable. Auditors perform an especially important function in those aspects of governance that are crucial in the public sector for promoting credibility, equity, and appropriate behavior of government officials, while reducing the risk of public corruption. Therefore, it is crucial that government audit activities are configured appropriately and have a broad mandate to achieve these objectives. The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors achieve these goals vary. At a minimum, government audit activities need:

Organizational independence. Organizational independence allows the audit activity to conduct work without interference by the entity under audit. The audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so. Coupled with objectivity, organizational independence contributes to accuracy of the auditors' work and the ability to rely on the results and report...

The reporting line of the auditor is tied to the function's independence, which is the most fundamental element of an effective and credible government audit activity. Because the government auditor's role is to provide unbiased and accurate information on the use and results of public resources, auditors must be able to conduct and report on their work without interference or the appearance of interference. Independence is achieved when the audit activity reports outside the hierarchy of the organization and activities under audit and when auditors are free to conduct their work without interference, restrictions, or pressures from the organization being audited. Such interference can occur if the audited entity limits access to records or employees, controls budget or staffing for engagements, or has authority to overrule or modify audit reports.¹⁵

Standards for the Professional Practice of internal Auditing, International Standards for the Professional Practice of Internal Auditing, Standard 2010- Planning, A1, C1, states:

The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process. The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Those engagements that have been accepted should be included in the plan.

3. Auditing Standards Board

The Auditing Standards Board, *Statement on Auditing Standards (SAS) Number 99, Consideration of Fraud in a Financial Statement Audit*, states that:

The internal auditors should have an independent reporting line directly to the audit committee, to enable them to express any concerns about management's commitment to appropriate internal controls or to report suspicions or allegations of misappropriation involving senior management.

¹⁵ [The Role of Auditing in Public Sector Governance](#); The Institute of Internal Auditors, November 2006.

4. American Institute of CPAs (AICPA)

The AICPA's, *Management Override of Internal Control: The Achilles' Heel of Fraud Prevention*, states that:

First and foremost, the internal audit department should understand that its responsibilities are primarily to the audit committee. A strong internal audit function may also include audit committee oversight of the internal audit group's budget approval process and its policies regarding hiring, evaluation, training, and termination of internal audit staff. Terminating or transferring high level internal audit personnel should be ultimately determined by the audit committee.

Executive sessions with the head of the internal audit function at every audit committee meeting provide the audit committee a unique opportunity to engage in candid discussions with him or her about the possible risk of management override of internal controls and any indications of improper conduct by senior management.

The audit committee, by understanding and assisting in developing the internal auditors' annual audit plan, will influence the internal auditors' agenda by directing the plan's emphasis to areas of particular interest to the audit committee. These areas might include misappropriation risks—particularly matters that surfaced during the brainstorming session—and controls over judgments and estimates and key information processes. A properly directed internal audit staff can serve as the “eyes and ears” of the audit committee. Specific inquiries might include what misappropriation risks are being monitored by the internal audit team on a periodic or regular basis and how does the internal auditor address the continuous auditing of these critical risks?

5. Best Practices Observed During Audit

In addition to the information provided by governing entities noted above, Washington School Districts are actively using the internal audit function to identify cost savings and improve operations:

- **Tacoma School District.** Upon assuming office in August 2007, the newly appointed superintendent stated that he wanted the internal audit position to report to the Tacoma School Board and to the Citizens Finance and Audit Committee. While the position of the internal auditor was vacant during our review of Tacoma, an official vacancy announcement was being advertised widely on its Web site and in other job opportunity venues. Indeed, in early 2008, and after the conclusion of our fieldwork, we were informed that an offer had been extended to a qualified candidate.

Since the 2002-2003 school year, Tacoma has completed 26 ASB audits, 10 investigations, and 11 performance audits. Regarding performance audits, it has conducted audits of programmatic areas, federal compliance processes, contract and grant processes, district purchasing and warehousing processes, and attendance and enrollment processes, with the following audit results:

- Vendor overcharges
- Cost avoidances
- Missed interest-earning opportunities
- Missed opportunities for capturing state revenue
- Excessive program costs
- Non-compliance with federal grant requirements
- Non-compliance with terms and conditions of contracts
- Weak internal controls and inadequate program processes

In the 2005-2006 school year, recognizing the value of performance auditing, Tacoma hired an independent public accounting firm to conduct a comprehensive performance audit district-wide. The scope of the audit included the review of cash intake processes, budget processes, accounts payable, Tacoma organizational issues, payroll processes, grant processes, accounting and reporting processes, and purchasing processes.


Finally, to ensure that the internal audit function can operate and succeed in the District with the independence and support needed to fulfill its mission, Tacoma management has established a few basic employment guidelines to safeguard the integrity of the internal audit position. As such, the internal auditor cannot be terminated without the concurrence of the Tacoma Board or Audit Committee. In addition, the Tacoma Board and Audit Committee reviews, comments on, and approves the internal audit annual work plan, which is devised on a risk-based approach.









- **Kent School District.** We recognize the success that Kent has had with its internal auditor, even though we believe that a separate line to the Kent School Board should be established for the auditor to report audit results. Nevertheless, the approach to its annual audits, based on the highest risks for misappropriation, are noteworthy and its results are reviewed and used by the State Auditor’s Office and incorporated into its annual audit work.

There are several critical factors to a successful internal audit function:

- Audit scope must be identified using a risk-based approach. As the State Auditor’s Office emphasizes on its Web site, the concept of risk-based auditing is driven by the fact that an auditor cannot audit all activities of an entity. This is compounded by the fact that audit resources are limited and audit risk is not. An auditor must therefore decide what is most important to audit. This is done by conducting a risk assessment, which is designed to identify areas of risks, to prioritize those risks and to allocate audit resources accordingly. Properly designed risk-based auditing will ensure the significant areas are audited in the most effective and efficient manner.
- The internal audit function must maintain organizational independence as it relates to identifying risk areas and audit plans, as well as the process of reporting audit results. Ideally, the internal auditor should report to the Board or an audit committee of the Board to ensure that all areas within the district are open to scrutiny. Additionally, having organizational independence is valuable when making performance or procedural recommendations that affect more than one department.
- Adequately trained staff. An internal audit function requires skills obtained through training, education, and experience. As noted above, many districts are performing activities that may be similar to functions performed by internal auditors. However, these staff may not be best suited to move into an Internal Auditor role.

RECOMMENDATIONS

<p>Edmonds #13</p>  <p>Evergreen #13</p>	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the
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 Federal Way #13  Kent #13  Lake Washington #13  Puyallup #13  Spokane #13  Vancouver #13 	<p>priorities of the internal audit activity, and to be consistent with the district’s goals.</p> <ul style="list-style-type: none"> • The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.
Seattle #13 	<p>We recommend that the Finance Committee of the Seattle School Board immediately approve the Audit Charter.</p>

POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATIONS

Maintaining a limited view of the auditor’s role deprives all of the school districts and their supporting taxpayer base a full accounting on the condition of the district’s administrative operations and other programs, processes, and procedures. In addition, if the internal audit function is organizationally positioned within the office of the CFO, or within a business service office chain of command, the function will lack organizational independence, and there will be a potential reluctance to consider all possible audits and investigations. Since most audits have a tangible effect on the district’s budget, the internal auditor should report results of all audits directly to the school board or to an audit committee designated by the board. Administratively, the internal auditor could continue to report to a CFO or other program official. Finally, establishing an annual audit plan that is risk-based with input from senior district management and the school board ensures that those programs needing the district’s vital audit attention will be addressed.

In Seattle, delaying the approval of the Audit Charter is depriving Seattle and its supporting taxpayers a full accounting on the condition of all of the district’s programs, processes, and procedures.

Potential Cost Savings

The most significant cost savings realized through the implementation of an internal auditor are the efficiencies that can be identified in district procedures. Additionally, as shown by the internal audit function in Tacoma,

internal auditors identify duplicate payments, overcharges and other cost savings. Realized cost savings is not determinable because it is driven by the scope of work identified and can vary from year to year.

Auditor's Additional Comment:

Many of the districts responded that the additional cost of an internal audit function is not justified primarily due to cost constraints each district is faced with (and given that particular school district's risk profile, the number of audits performed by the external auditors and their prior history of audit issues or findings). It is important to note that the audit recommendation is focused on ensuring that the internal audit function is independent in its responsibilities (risk assessment, reporting, etc). Many districts reported that they are already performing the functions of an internal auditor, therefore there is no additional cost involved in revising the reporting structure of the person(s) performing these reviews. In those districts where these functions are not currently being performed we are recommending that staff resources be allocated to internal audit tasks that we believe will result in cost savings in excess of those costs required to implement the position.

COMPARISON OF INITIATIVE 900 ELEMENTS AND AUDIT FINDINGS

APPENDIX A

I-900 Element	Audit Findings												
	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Identification of cost savings.	✓	‡	‡	‡	✓	✓	✓	✓	✓				‡
2. Identification of services that can be reduced or eliminated.			✓	✓			✓	✓	✓				
3. Identification of programs or services that can be transferred to the private sector.											✓		
4. Analysis of gaps or overlaps in programs or services and recommendations to correct them.		✓							✓				
5. Feasibility of pooling the entity's information technology system.									✓				
6. Analysis of the roles and functions of the Districts and recommendations to change or eliminate roles or functions.					✓	✓			✓				✓
7. Recommendations for statutory or regulatory changes that may be necessary for the entity to properly carry out its functions.				✓					✓		✓		
8. Analysis of the entity's performance data, performance measures and self-assessment systems.	✓								✓				✓
9. Identification of best practices.								✓	✓			✓	✓

Notes:

- ‡ Likely cost savings are associated with this finding, but such savings would be impossible to estimate.
- ✓ This finding was relevant to the I-900 element.



SUMMARY OF RECOMMENDATIONS TO EDMONDS SCHOOL DISTRICT

APPENDIX B-1

Condition	Recommendation	Five-Year Cost Savings	Page
#1	<p>We recommend that Edmonds implement automated routing software for special education routes. In order to make changes as quickly and efficiently as other districts, the transportation department will most likely need to seek out additional training or updates for Edulog.</p> <p>Edmonds should create a timeline to guide the continuing implementation process, and seek the advice of local districts facing similar special education routing issues. Any additional costs to fully implement the routing software at this point are necessary if the software is to be successful and eventually pay for itself in cost savings.</p>	\$1,978,500 ¹⁶	7
#8	<p>We recommend these districts:</p> <ul style="list-style-type: none"> • Expand their purchasing card purchases to an optimal level. The districts should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of their available supplies budget for purchasing card use. • Consider participating in a purchasing card program that offers a competitive rebate allowance, such as the program available through WASBO, or a purchasing card program that offers similar or greater rebate benefits available through other vendors. 	\$3,300,000 ¹⁶	29
#11	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43
#13	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the 		52

¹⁶ Estimated savings represent both opportunity cost savings from a reduction of processes and other realizable cost savings due to a reduction in the cost of operations.

	<p>priorities of the internal audit activity, and to be consistent with the district's goals.</p> <ul style="list-style-type: none">• The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.		
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Condition	Recommendation	Five-Year Cost Savings	Page
#4	Evergreen developed a 20-year plan for portables reduction. We recommend Evergreen revisit this plan to determine if it can be shortened, perhaps to 10 or 15 years. Once a determination has been made, the district should proceed with implementing the plan. Portables reduction should reach 10 percent of total classrooms or less. It is not expected that this plan can be implemented within just a few years: it may require 10 years or more because of the large number of portables they are currently using. Portables reduction should reach 10 percent of total classrooms or less.		18
#8	We recommend these districts: <ul style="list-style-type: none"> • Expand their purchasing card purchases to an optimal level. The districts should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of their available supplies budget for purchasing card use. • Consider participating in a purchasing card program that offers a competitive rebate allowance, such as the program available through WASBO, or a purchasing card program that offers similar or greater rebate benefits available through other vendors. 	\$3,300,000 ¹⁷	29
#11	We recommend the District: <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43
#13	For these districts, we recommend: <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the 		52

¹⁷ Estimated savings represent both opportunity cost savings from a reduction of processes and other realizable cost savings due to a reduction in the cost of operations.

	<p>priorities of the internal audit activity, and to be consistent with the district's goals.</p> <ul style="list-style-type: none">• The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.		
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Condition	Recommendation	Five-Year Cost Savings	Page
#2	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Develop and implement a formal deferred maintenance plan to divest its deferred maintenance backlogs. This plan will include the appropriate actions needed to eliminate the deferred maintenance backlog and an establishment of a timeline to complete the work with a corresponding budget plan. • Develop and implement a formal preventive maintenance program. A preventive maintenance program will help prevent the risk of unforeseen equipment and system failures; lengthen building and equipment life; and eliminate the costly accumulation of deferred maintenance. • Identify the current deferred maintenance backlog and estimate the cost to correct all deficiencies. • Implement a procedure to track all deferred maintenance items and estimated costs. 		12
#10	<p>We recommend Federal Way expand the strategic planning and goal-setting process to solicit input from employees and interested parties from the community other than board members on a regular and consistent basis. Involving the community helps to build support and to ensure that diverse needs and viewpoints are included in future plans for the District. Engaging in these practices leads to increased community support for desired change and draws on local expertise in developing plans.</p> <p>Including an examination of the effectiveness of Federal Way’s organizational structure will make the strategic planning process more cohesive. Federal Way’s strategic plan is consistently used by central and school leadership to set and monitor goals through school improvement planning and learning plans. It has been effective and successful in closing achievement gaps addressing specific objectives. Implementing these recommendations would strengthen its ability to enlist more people in goal achievement and create wider commitment to the goals throughout the schools and community. Tying that to the planning process would refine position allocation to ensure that the District’s structure supports the achievement of annual goals.</p>		37
#11	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs 		43

	of other operational methods.		
#13	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district's goals. • The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan. 		52



SUMMARY OF RECOMMENDATIONS TO KENT SCHOOL DISTRICT

APPENDIX B-4

Condition	Recommendation	Five-Year Cost Savings	Page
#4	These districts should, in the next update of their Strategic Facilities Plan, develop and implement a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms.		18
#10	We recommend Kent develop a formal district-wide strategic planning process that creates a traditional formal strategic plan with detailed strategies to achieve goals and objectives that coordinates all program areas. Comprehensive strategic planning initiatives should include participation of the board, superintendent, administration staff, principals, teachers, students, and community members. Strategic planning processes normally begin with a board strategic planning retreat using a facilitator to develop agreement on the District's vision, long-term goals, objectives, implementation initiatives, timelines, and responsibility assignments. In developing long range plans, particular attention should be paid to demographic changes, shrinking financial support, necessary changes to curricula, and the recruitment, training, and retention of effective teachers.		37
#11	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board's statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43
#13	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district's goals. • The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan. 		52

Condition	Recommendation	Five-Year Cost Savings	Page
#2	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Develop and implement a formal deferred maintenance plan to divest its deferred maintenance backlogs. This plan will include the appropriate actions needed to eliminate the deferred maintenance backlog and an establishment of a timeline to complete the work with a corresponding budget plan. • Develop and implement a formal preventive maintenance program. A preventive maintenance program will help prevent the risk of unforeseen equipment and system failures; lengthen building and equipment life; and eliminate the costly accumulation of deferred maintenance. • Identify the current deferred maintenance backlog and estimate the cost to correct all deficiencies. • Implement a procedure to track all deferred maintenance items and estimated costs. 		12
#4	<p>These districts should, in the next update of their Strategic Facilities Plan, develop and implement a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms.</p>		18
#8	<p>We recommend the district</p> <ul style="list-style-type: none"> • Expand its purchasing card purchases to an optimal level. The District should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of its available supplies budget for purchasing card use. 	\$4,200,000 ¹⁸	29
#11	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43

¹⁸ Estimated savings represent both opportunity cost savings from a reduction of processes and other realizable cost savings due to a reduction in the cost of operations.

#13	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district's goals. • The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan. 		52
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SUMMARY OF RECOMMENDATIONS TO PUYALLUP SCHOOL DISTRICT

APPENDIX B-6

Condition	Recommendation	Five-Year Cost Savings	Page
#1	We recommend Puyallup implement automated routing software. Although each software program will have its pros and cons, it has been shown that taking the step to automate routing has undoubtedly created savings for districts across the country. We recommend Puyallup ensure, by contract, that thorough training will be provided by the vendor. Full implementation should occur within the first year, and the department leaders must promote the change in order to gain the support of the staff. Additionally, Puyallup should create a timeline to guide the continuing implementation process, and seek the advice of similar local districts that have fully automated its routing processes.	\$2,886,000 ¹⁹	7
#4	These districts should, in the next update of their Strategic Facilities Plan, develop and implement a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms.		18
#8	We recommend these districts: <ul style="list-style-type: none"> • Expand their purchasing card purchases to an optimal level. The districts should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of their available supplies budget for purchasing card use. • Consider participating in a purchasing card program that offers a competitive rebate allowance, such as the program available through WASBO, or a purchasing card program that offers similar or greater rebate benefits available through other vendors. 	\$4,700,000 ¹⁹	29
#10	We recommend Puyallup extend the annual strategic planning and goal-setting process to incorporate the input they obtain from employees and community members. This process should occur on a more regular basis than is currently practiced, and include in annual strategic planning discussions an examination of the effectiveness of Puyallup’s organizational structure. Puyallup has a sound foundation for strategic planning and obvious commitment to the process. Implementing the recommendation would strengthen that foundation and extend the base of staff and community members who could contribute to the process and its success. Principal and community involvement would enrich goal-setting, heighten their commitment to Puyallup goals and, thus, increase opportunities for goal achievement.		37
#11	We recommend the district: <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food 		43

¹⁹ Estimated savings represent both opportunity cost savings from a reduction of processes and other realizable cost savings due to a reduction in the cost of operations

	<p>or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs.</p> <ul style="list-style-type: none"> • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		
#13	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district's goals. • The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan. 		52



Condition	Recommendation	Five-Year Cost Savings	Page
#2	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Develop and implement a formal deferred maintenance plan to divest its deferred maintenance backlogs. This plan will include the appropriate actions needed to eliminate the deferred maintenance backlog and an establishment of a timeline to complete the work with a corresponding budget plan. • Develop and implement a formal preventive maintenance program. A preventive maintenance program will help prevent the risk of unforeseen equipment and system failures; lengthen building and equipment life; and eliminate the costly accumulation of deferred maintenance. 		12
#3	<p>We recommend Seattle initiate a study, and if feasible, implement further school closures. Seattle took an important first step by closing seven facilities and offering them for sale or lease. Seattle plans to recalculate its building capacity by using its most current occupancy and space allocation criteria, and develop a new student assignment strategy by the 2010-11 school year. As a consequence, Seattle Public Schools should be able to develop a plan for additional school closures soon thereafter.</p>	\$18,000,000	15
#5	<p>Seattle should design, implement, and perform a routine analysis of staffing levels. It should identify or develop staffing level ratios used to monitor actual levels and adjust staffing levels accordingly.</p>	\$10,500,000	23
#11	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43
#13	<p>We recommend that the Finance Committee of the Seattle School Board immediately approve the Audit Charter.</p>		52



SUMMARY OF RECOMMENDATIONS TO SPOKANE SCHOOL DISTRICT

APPENDIX B-8

Condition	Recommendation	Five-Year Cost Savings	Page
#11	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43
#13	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district’s goals. • The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan. 		52



SUMMARY OF RECOMMENDATIONS TO TACOMA SCHOOL DISTRICT

APPENDIX B-9

Condition	Recommendation	Five-Year Cost Savings	Page
#6	Tacoma should design and perform routine, comparative analysis of staffing levels and staffing level ratios to monitor actual levels and adjust staffing levels accordingly.	\$8,500,000	25
#7	Tacoma should adopt Washington State’s capitalization threshold of \$5,000 and update Regulation 6211R to include this new threshold.	\$85,000	27
#10	Building off the results of the work in their 2006 process and the District Improvement Plan for 2007-2008, we recommend Tacoma develop a strategic planning process that creates a traditional formal strategic plan with detailed strategies to achieve goals and objectives. Comprehensive strategic planning initiatives should include participation of the board, superintendent, administration staff, principals, teachers, students, and community members. Strategic planning processes normally begin with a board strategic planning retreat using a facilitator to develop agreement on Tacoma’s vision, long-term goals, objectives, implementation initiatives, timelines, and responsibility assignments. In developing long range plans, particular attention should be paid to demographic changes, shrinking financial support, necessary changes to curricula, and the recruitment, training, and retention of effective teachers. Tacoma should also develop a formal policy that requires an annual review of the plan and to update where necessary.		37
#11	<p>We recommend the District:</p> <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43



SUMMARY OF RECOMMENDATIONS TO VANCOUVER SCHOOL DISTRICT

APPENDIX B-10

Condition	Recommendation	Five-Year Cost Savings	Page
#1	We recommend Vancouver implement automated routing software for all regular bus routes (including special education). Vancouver should create a timeline to guide the continuing implementation process. We also recommend that Vancouver communicate with Evergreen for help with further implementation because both Districts have the same routing and student management system. The additional costs to fully implement the routing software at this point are necessary if the software is to be successful and eventually pay for itself in cost savings.	\$3,208,000 ²⁰	7
#8	We recommend these districts: <ul style="list-style-type: none"> • Expand their purchasing card purchases to an optimal level. The districts should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of their available supplies budget for purchasing card use. • Consider participating in a purchasing card program that offers a competitive rebate allowance, such as the program available through WASBO, or a purchasing card program that offers similar or greater rebate benefits available through other vendors. 	\$5,300,000 ²⁰	29
#11	We recommend the District: <ul style="list-style-type: none"> • Consider implementing the Governmental Accounting Standards Board’s statements for its business type activities. • Review their respective indirect cost allocation plan: (1) to ensure costs are consistently classified as direct and indirect among all programs and (2) to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs. • Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. 		43
#12	We recommend Vancouver establish a formal policy on the level of unreserved fund balance that should be maintained in its general fund. Such a guideline should be set by the policy approved by the school board, and should provide both a temporal framework and specific plans for increasing or decreasing the level of unreserved fund balance, if it is inconsistent with that policy. Since unreserved fund balance often is subject to unexpected fluctuations, a well designed policy will provide specific guidance on what actions a government should take (and over what period) to adjust unreserved fund balance to appropriate levels if it falls outside of predetermined parameters as the result of		49

²⁰ Estimated savings represent both opportunity cost savings from a reduction of processes and other realizable cost savings due to a reduction in the cost of operations.

	<p>such fluctuations.</p> <p>Any policy addressing desirable levels of unreserved fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints.</p>		
#13	<p>For these districts, we recommend:</p> <ul style="list-style-type: none"> • The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management. • Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. • The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district's goals. • The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan. 		52



SUMMARY OF RECOMMENDATIONS TO OSPI

APPENDIX C

Condition	Recommendation	Five-Year Cost Savings	Page
#4	OSPI should conduct a review to identify viable long-term alternatives to traditional portable classrooms, such as more energy-efficient, more easily maintained modular products that are less prone to indoor air quality problems.		18
#9	We recommend OSPI, in collaboration with the Educational Service Districts and school districts, develop and implement a plan to centralize the acquisition and maintenance of certificated employees' education and experience records.	\$6,500,000 ²¹	34
#11	In order to more accurately capture program cost, we recommend OSPI, in collaboration with the state Legislature, allow for the optional use of enterprise funds to account for the school districts' business-like activities. Additionally, we recommend that OSPI prescribe the use of cost accounting in the Schools Accounting manual.		43

²¹ Estimate of cost savings only for the 10 districts in our review.



SUMMARY OF RECOMMENDATIONS TO WASHINGTON STATE LEGISLATURE**APPENDIX D**

Condition	Recommendation	Five-Year Cost Savings	Page
#4	A review is necessary at the state level to determine if the process to approve funds for planning, design, and construction is too lengthy and could be shortened. This would reduce the need and time for housing students in portables statewide.		18
#9	We recommend the Washington Legislature authorize and fund the development, implementation and maintenance of a centralized repository of certificated employees' records.	\$6,500,000 ²²	34
#11	To more accurately capture program cost, we recommend the Washington Legislature authorize the optional use of enterprise funds to account for the school districts' business-like activities.		43

²² Estimate of cost savings only for the 10 districts in our review.



Edmonds School District No. 15

Response to Performance Audit by Cotton and Company in the Fall, 2007

Prepared by Marla Miller, Assistant Superintendent Business and Operations, in consultation with Nick Brossoit, Ed.D., Superintendent (8/15/08)

Edmonds School District #15 appreciates the review of our administrative operations by the performance audit team, and will carefully consider their recommendations for implementation. Our primary mission is to provide the best educational program possible with the resources available, and to that end we welcome the auditors' perspective on opportunities to improve our services.

Because this written response is due prior to reviewing the audit results and recommendations with our Board of Directors and holding our public hearing, we wish to state that each recommendation will be reviewed carefully, but at this point we have not yet determined the specific course of action that will be taken.

Our Board of Directors will hold a study session to review the report in detail on September 16, 2008, and the public hearing -- required by law within 30 days following publication of the final report -- will be held on September 23, 2008.

General Comments

In general, we appreciate the thoughtful approach taken by the audit team to review our administrative operations in light of their view of best practices for K-12 school districts across the nation. We are, however, concerned the cost savings estimates appear to reflect broad assumptions that implementing recommendations will result in significant reductions in personnel. Without analyzing and comparing the beginning staffing levels in relevant functions for each individual district, applying these broad assumptions can easily overstate the projected savings in any given area. We believe quantifying an estimated cost savings for each district, using this methodology, is misleading to the public.

We offer the following initial response to each recommendation for our district, again noting that our Board of Directors and citizens have not yet had an opportunity to provide input on the specific suggestions.

Automated Bus Routing

For Edmonds School District, this recommendation focuses on special education transportation, since we already use automated bus routing for our regular education program. It's important to note that our special education program -- including the location and number of specialized classes -- is designed first and foremost to meet the students' individual learning needs, not to maximize the efficiency of transporting the students. Where we can increase transportation efficiency without sacrificing student learning, we are open to suggestions. However, improving transportation efficiencies due to program placement decisions (i.e., "centralize special education services"), may not be in the best interests of the students.

Also, consolidating more students on fewer bus routes is often not feasible without lengthening to unacceptable levels the amount of time students spend riding the bus.

Please note: as a result of funding shortfalls, we are implementing certain efficiencies in transporting special education students in September, 2008. These primarily involve pairing the bus routes for special education classes at adjacent schools, and reducing mid-day transportation to off-site instructional activities for students. We believe

these steps will allow us to continue to meet the students' Individual Education Plans, while reducing transportation costs.

We will study the automation suggestions from the performance audit team, and implement those that improve efficiency without sacrificing essential services.

Use of Purchasing Cards

Edmonds School District #15 uses procurement cards in addition to an electronic purchase order processing system. Regardless of the method used, internal controls require a site-based administrator to review and approve a purchase before it is processed. With purchase orders, that approval is also subject to Business Office review prior to the issuance of the purchase order and the commitment of funds. With procurement cards, the purchase can be made by any individual with access to the procurement card, with no additional oversight by an administrator or the Business Office. While we are open to improving the efficiency of purchasing, we do not support doing so at the risk of increasing the opportunities for inappropriate use of public funds.

At the advice of the performance audit team, we reviewed the presentation "The Power of Plastic", by Shawn Lewis, CPA, and Manager of Special Investigations for the State Auditors Office. All of the safeguards recommended by Mr. Lewis in his presentation are in place in Edmonds School District – policies and procedures specific to the issuance and use of procurement cards, issuance of cards based on identified risks, merchant controls, transaction limits, and regular monitoring of activity and card reconciliations by the Business Office. The question raised by the performance audit recommendation is whether we can increase the financial benefits of using procurement cards without incurring unacceptable risks. At a minimum, we will maximize our use of the cards for making purchases at the district level, thus increasing dollar volumes and potential rebates without increasing the number of purchasing transactions.

The performance audit team recommends using a different vendor to increase rebates. Through a shared purchasing agreement, we have been using the procurement card vendor selected by the State of Washington. They are changing vendors, and we will do a cost/benefit analysis of available rebates before selecting our replacement vendor.

We will carefully review the auditors' recommendations, but do have initial concerns:

1. Although procurement cards may be more "efficient" than issuing purchase orders, they are also more vulnerable to lack of compliance with competitive bid laws, fraud and an immediate commitment of funds without proper approvals in place.
2. Procurement card purchases are currently not detailed in our accounting records by merchant or description of item purchased, making it difficult to include these transactions in research and cost analysis from our accounting system (this may be an area that can be addressed by another vendor).
3. To the extent the cost savings estimated by the audit team rely on reducing purchasing positions in schools, it is important to note that purchasing activity is a relatively small part of the workload of the one office manager position staffed in each of our 35 schools. These positions also process enrollment and payroll transactions, deal with sick students, support the classroom needs of teachers, greet the public, and perform numerous functions in support of the school community. The net amount of time "saved" through use of procurement cards in lieu of purchase orders will not be sufficient to eliminate a position at any school.
4. Similarly, we have two staff in our purchasing department who process requisitions and issue purchase orders, review and reimburse petty cash funds, issue and monitor the use of procurement cards, make travel arrangements, and provide miscellaneous related purchasing services for the entire district. Moving more activity to procurement cards is unlikely to create sufficient capacity to eliminate or reduce a position.

Financial Management and Cost Analysis

We will review the recommendations of the performance audit team with our Board at a study session on September 16th, and take additional input at our public hearing on September 23rd. We appreciate the recognition of work already done resulting in difficult program decisions based on a cost/benefit analysis of services and options.

Internal Auditor Function

Again, we will review the recommendations of the performance audit team with our Board at a study session on September 16th, and take additional input at our public hearing on September 23rd.

If the Legislature concurs with the importance of adding an independent internal auditor to each of the school districts in the report (if not in the entire state), it is critical that they fully fund the position. Most if not all school districts are making significant budget reductions in the face of inadequate State funding for basic education; adding a new audit position with uncertain savings potential at the same time we are reducing instructional programs, eliminating services, and cutting teaching positions will be difficult to explain to the public.

Any cost savings analysis has to be based on a current risk assessment of each District. If, as stated in the example provided in the report, an internal audit position has been in place since 2002 and essentially saved that district \$200,000, it appears the position has not generated adequate cost savings to pay for itself.

We appreciate the opportunity to provide a written response to be included in this report.



We're guiding the future™

August 8, 2008

MEMORANDUM

To: Taylor Dribben,
Cotton & Company LLP

From: Mike Merlino, CFO
Evergreen School District 114

Subject: Evergreen School District 114
Response to Performance Audit Report of
Administrative Operations and Support Services

Thank you for providing the performance audit report regarding the District's administrative operations and support services, for our comment. Please accept this letter as the District's initial response to the audit report and recommendations. The District will reply with additional comments after the public hearing on this subject:

Audit Conditions:

1. Excessive Use of Portables (No 4 in audit report)

Auditor's Recommendations:

Evergreen has developed a 20-year plan for portables reduction. It is therefore recommended that Evergreen revisit this plan to determine if it can be shortened – perhaps to 10 or 15 years. Once a determination has been made, Evergreen should proceed with plan implementation. Portables reduction should reach 10 percent of total classrooms or less. In addition, it is not expected that his plan can be implemented within just a few years: it may require 10 years or more because of the large number of portables they are currently using.

District's Response:

The auditor provided a thorough explanation of the issues concerning the use of portable classrooms in Washington School Districts.

For Evergreen to be in compliance with the auditor's recommendation the District would need to reduce portable classrooms inventory by 145 portables, and raise an estimated \$90 to \$100 million dollars to construct one middle school and three elementary schools.

The authoritative basis for the auditor's recommendation is the "Texas Ten Percent Portable Guideline" and is the one and only independent and officially available guideline (from a Texas Education Agency).

We thank the auditor for explaining in their report that "The school districts with a portables count above 10 percent of permanent classrooms are not necessarily at fault or careless in their handling of facilities planning. They have in large measure used portables because such action has presented the only apparent and responsive path to housing the increased numbers of students. In addition, state construction funding processes and rules seem to have contributed to the use of portables by many districts with growing enrollments as well as a lack of success with the passage of bond referenda. It is therefore important to understand that some school districts have large numbers of portables out of necessity, and that possible changes in construction funding by Washington State could help such districts better manage their facilities inventories." In addition, the auditor states in part "Areas where current laws, policies, and procedures impede the reduced use of portables in Washington include:

- Assessed property valuations vary significantly across Washington, placing some school districts at a gross income disadvantage compared to others;
- State matching funds for construction are based on construction costs so low that they have not been viable for nearly a decade;
- Bond passage requirements for a super-majority make it difficult for many districts to obtain the local approvals needed;
- Some school districts face explosive growth in enrollment and the only viable response they have found is to use portables to house extra students."

The previous paragraph (from the auditor's report) explains why the District has a large inventory of portable classrooms.

Evergreen's voters passed a bond issue in 2002 with bond proceeds used for the construction of seven school buildings, four of which were replacement school buildings. In May 2008, another bond issue was presented to the voters that included construction of additional school buildings. Voting results for the bond issue was less than 45 percent yes votes.

2. Use of Procurement Cards (No 8 in audit report)

Auditor's Recommendations: Districts should:

- Expand its purchasing card purchases to an optimal level. The districts should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of not less than 21.5 percent of their available supplies budget for purchasing card use.

- Consider participating in a purchasing card program that offers a competitive rebate allowance; such as the program available through WASBO, or a purchasing card program that offers similar or greater rebate benefits available through other vendors.

District's Response:

The District has benefited from the use of its procurement card program over the last 10 years. The District will increase purchasing card maximums to \$2,500 per transaction. The District has been working with a financial institution to change its procurement card program to include rebate allowance and web based access.

The auditor's recommendation displays cost savings to the District of \$3,300,000 over a five year period (on page 33).

- The District agrees it will receive true savings based on purchasing card rebates, and is currently in the process of negotiating with its procurement card vendor. The auditor reported estimated savings from rebates of \$27,000 annually and \$135,000 over a five year period.
- The auditor also reported an estimated additional saving of \$634,000 annually, or roughly \$3,200,000 over a five year period, which is based on an estimated percentage of purchases made with purchasing cards that the auditor obtained from a published authoritative research report in May, 2007.
 - The estimated annual savings of \$634,000 is not a true cost savings that the District could deposit in the bank or would benefit from reduced expenditures or rebates paid back to the District. This is confirmed by the State Auditor's Office with footnote 1 on page 33, which states "Estimated savings represent opportunity cost savings...".
 - In regards to the estimated savings, the District agrees that it will benefit from reduced handling in the procurement steps when using purchasing cards over purchase orders.
 - The District's central purchasing and accounting office has five staff that process purchase orders and accounts payable warrants, with a salary cost (salary and benefits) of \$250,000 annually. If the District were to completely eliminate this department, which is clearly not feasible, the savings would only equal \$250,000. This is significantly less than the projected annual savings of \$634,000. Evergreen does not agree that there is \$634,000 in annual savings from this recommendation.

3. Financial Management and Cost Analysis (No 11 in audit report)

Auditor's Recommendations:

The auditor recommends that the District:

- Consider implementing the Governmental Accounting Standards Board's statements for its business type activities.
- Review their respective indirect cost allocation plan to ensure that costs are consistently classified as direct and indirect among all programs. Additionally, review the cost allocation plan to determine the equitability of the plan over certain programs, such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs.
- Conduct and document periodic cost analysis that address the cost of operating in the current method and comparing those costs to projected costs of other operational methods.
 - Based on the accurate current financial picture of the program or department. As previously discussed, districts do not have a true financial picture of the food service operations because indirect costs cannot be clearly allocated. This issue will affect all areas of analysis.
 - Performed by the budget or accounting office (or with their supervision) to ensure that indirect costs are properly attributed to the program, and that any changes to labor rates, or other costs, are properly addressed (such as upcoming bargaining unit adjustments, or increases to borrowing rates).
 - Tailored to the specific needs and constrains of the districts. Things such as sunk costs for facilities, long-term labor agreements, or the inability to obtain capital funding must be factored into each analysis.
 - Performed on a periodic basis (of no more than 5 years) and also when significant changes occur (i.e. enrollment changes, increase in current costs, etc.)
 - Quantitative as well as qualitative. The assessment must acknowledge that there are other factors such as the quality of services, community perception, and other non-cost factors that must be considered when making operational choices.
- Districts have available resources to assist them in these analyses. Educational Service Districts often have cost studies or available research on different operational methods. Additionally, vendors often have cost analysis, or will prepare customized analysis for little or no cost.

District's Response:

The first recommendation by the auditor is for the District to consider implementing the Governmental Accounting Standards Board's statements for its business type activities. This subject is discussed below.

The financial statements of Evergreen School District 114 are prepared according to generally accepted accounting principles in effect prior to the GASB 34 requirement. The district's accounting policies materially conforms to the Accounting Manual for Public School Districts in the State of Washington, issued jointly by the State Auditor and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. As mentioned in the audit report, districts in Washington State are not authorized to use enterprise funds. Given the under-funded mandates experienced by the district, preparing any off-line accounting records will be delayed until funding is available.

Regarding cost analysis as explained in the audit report, the District has always and will continue to conduct and document periodic cost analysis that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods.

Indirect cost allocation plans are discussed in the auditor's report. The methodology of the plan is built into the State F-196 State Report based on the reporting outlined in the State Accounting Manual and OSPI agreement with the federal government for the methodology policy and procedure for all Washington School Districts, for calculating indirect, direct, and excluding costs and rates.

4. Internal Audit Function (No. 13 in audit report)

Auditor's Recommendations:

- The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management.
- Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor.
- The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and be consistent with the District's goals.
- The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.

Evergreen School District 114
Response to Performance Audit Report of
Administrative Operations and Support Services, Page 6

District's Response:

The District appreciates the auditor's recommendations. Currently, the district has a thorough internal audit process to review district expenditures, and is annually audited by the State Auditor's Office. The District does not have available funding for an additional internal auditor position. The District will consider the auditor's recommendation annually during the budget process.

I would like to take this opportunity to also put the performance auditor's estimated savings into perspective as it relates to total expenditures of the largest 10 school districts in the State of Washington. Any savings are important and significant as school districts face financial shortfalls for various reasons. With that in mind, any ideas for cost savings are welcomed and appreciated. The performance auditor's report indicates an estimated savings of \$54.3 million over a five year period. In comparison, the 10 districts audited will spend an estimated \$14 billion in that same five year period. The recommended changes represent 0.38% of expenditures over that time period. If you eliminate the savings from procurement cards for the reasons stated above, the recommended changes represent 0.24% of expenditures over that time period.

Thank you for all your help in this matter. It was a pleasure working with you and your staff during the course of this performance audit of the District.

Please feel free to contact me at 360-604-4020 if I can answer any questions.

Sincerely,



Mike Merlino, CFO
Evergreen School District 114



August 12, 2008

Re: Response to Performance Audit

General Comments

Federal Way School District No. 210 appreciates the citizens' intent of I-900 and the time and effort provided by Cotton & Company and the State Auditors Office in conducting the Performance Audit of Administrative Operations and Support Services.

As a public school district in the State of Washington, our primary mission is to provide the best educational program for all students within the resources available, and to that end we welcome the auditors' perspective on opportunities to improve our operational efficiencies and organizational effectiveness. We have been and will remain committed to the continual process of self-examination and improvement in the support of education for ALL students.

We offer the following initial response to the four recommendations for our District. The response is written by first referencing the items outlined for Federal Way Public Schools in Appendix B-3, with responses following each recommendation – all in italics. Please note, our citizens and Board of Directors have not yet had a formal opportunity to provide comment on the specific recommendations due to the requirements of providing a written response prior to the publication of the final report and the conflicting requirement to provide a public hearing AFTER the final report is published.

CATEGORY: OPERATING INEFFICIENCIES AND SAVINGS OPPORTUNITIES

Condition #2 – Deferred Maintenance Backlog

No savings opportunities were calculated by the audit team. This condition was footnoted and explained as follows: "Realized costs savings are not quantifiable because they are driven by the district or are indirect in nature."

We recommend these districts:

- Develop and implement a formal deferred maintenance plan to divest their accumulated deferred maintenance backlogs. This plan will include the appropriate actions needed to eliminate the deferred maintenance backlog and an establishment of a timeline to complete the work with a corresponding budget plan.
- Develop and implement a formal preventive maintenance program. A preventive maintenance program will help prevent the risk of unforeseen equipment and system failures; lengthen building and equipment life; and eliminate the costly accumulation of deferred maintenance.
- Identify the current deferred maintenance backlog and estimate the cost to correct all deficiencies.
- Implement a procedure to track all deferred maintenance items and estimated costs.

District's Response

The publication "Save a Penny, Lose a School" referenced in this report is part of a series of documents published by the Rural School and Community Trust. In addition to the zero tolerance deferred maintenance criteria extrapolated by the performance audit team, it is important to point out that "Save a Penny, Lose a School" also specifically states that "lack of adequate funding is a critical factor in the problem of deferred maintenance..." and goes on to specifically make the following funding recommendations (emphasis added):

1. *REQUIRE STATE contributions to fund maintenance of school facilities, particularly in poor districts.*
2. *INITIATE FEDERAL PROGRAMS to fund preventive regularly scheduled school facility maintenance.*
3. *INITIATE STATE AND FEDERAL PROGRAMS to fund projects that correct deferred maintenance and bring school facilities to an acceptable standard of repair.*

We appreciate the recommendations but continue to question the value added to our current maintenance program against the lost instructional opportunities for students. We estimate it would cost about \$6M a year to implement this recommendation (without addressing the backlog). A change in expenditure of \$6M is equivalent to about 85 teachers, or a tax rate increase (if voter authorized) of \$0.50 per thousand dollars of assessed valuation. At any time, the Board of Directors may and can choose to modify the district's instructional and expenditure priorities, up to and including the implementation of these recommendations.

CATEGORY: DISTRICT ORGANIZATIONAL EFFECTIVENESS AND CONTROL

Condition #10 – Strategic Planning

We recommend that Federal Way expand the strategic planning and goal-setting process to solicit input from employees and interested parties from the community other than board members on a regular and consistent basis. Involving the community helps to build support and to ensure that diverse needs and viewpoints are included in future plans for the District. Engaging in these practices leads to increased community support for desired change and draws on local expertise in developing plans.

Additionally, including an examination of the effectiveness of Federal Way's organizational structure will make the strategic planning process more cohesive. Federal Way's strategic plan is consistently used by central and school leadership to set and monitor goals through school improvement planning and learning plans. It has been effective and successful in closing achievement gaps addressing specific objectives. Implementing these recommendations would strengthen its ability to enlist more people in goal achievement and create wider commitment of the goals throughout the schools and community. Tying that to the planning process would refine position allocation to ensure that the organization's structure best serve to achieve annual goals.

District's Response: *We appreciate the acknowledgement of the success we have had in closing the achievement gap, using the elements of our Strategic Plan as a guide and filter. The Board of Directors does and will continue to review not only the content, including the existing measurable goals, of the Strategic Plan, but the methodology in which it is created. The Superintendent consistently reviews the organizational structure for effectiveness in supporting the Strategic Plan, recommending and implementing changes.*

Condition #11 – Financial Management and Cost Analysis

We recommend that the District:

- Consider implementing the Governmental Accounting Standards Board's statements for its business type activities.

District's Response: *The district is currently following the regulatory reporting requirements as set forth by the School District Accounting Manual developed by the Washington State School District Accounting Advisory Committee under the joint direction of the Superintendent of Public Instruction and the State Auditor. In general, the manual follows established principles of governmental accounting as adopted by the Governmental Accounting Standards Boards.*

GAAP establishes five governmental fund types used to account for tax-supported activities. Proprietary funds – which are used to account for business-type activities of a government and are supported, at least in part, by fees or charges are not permitted for school districts in Washington State.

The district feels the additional expense created for preparation of any off-line accounting records and/or full implementation of GASB – as suggested in the report - would not justify the benefit derived. Given the amount of unfunded mandates experienced by the district, preparation of any off-line accounting records and/or full implementation of GASB - as suggested in the report - will be delayed until specific legislative funding is made available for this activity.

- Review their respective indirect cost allocation plan to ensure that costs are consistently classified as direct and indirect among all programs. Additionally, review the cost allocation plan to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocation indirect costs to those programs.

District's Response: *The district is currently following regulatory reporting requirements as set forth by the School District Accounting Manual for indirect cost allocations. As such, indirect expenditure rates allowed for various programs are established by the Office of Superintendent of Public Instruction (OSPI) pursuant to an agreement with the U.S. Department of Education (ED). This agreement prescribes the method of rate computation. The resulting rates are calculated for each district based upon financial information in the district's annual financial statement, SPI Form F-196, and become part of the regulatory report.*

- Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods.
- Districts have available resources to assist them in these analyses. Education Service Districts often have cost studies or available research on different operation methods. Additionally, vendors often have cost analyses or will prepare customized analysis for little or no cost.

District's Response: *The district does and will continue to conduct and document efficiency studies in programs, services and operations. This includes evaluation of alternative service delivery methods to save operational costs.*

Condition #13 – Internal Auditor Function

We recommend that:

- The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management.
- Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor.
- The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district's goals.
- The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.

District's Response: *The District does and will continue to seek operational efficiencies. Please note that until or unless the Washington State Legislature funds this position, adding this internal audit function will require the elimination of some other instructional program supported by the district. At any time, the Board of Directors may and can choose to modify the district's instructional and expenditure priorities, up to and including the implementation of an independent internal auditor.*



Thomas R. Murphy
Superintendent



August 27, 2008

Mr. Brian Sonntag, CGFM
Washington State Auditor
Insurance Building
P.O. Box 40021
Olympia, WA 98504-0021

RE: Kent School District #415 Response to the Performance Audit of the Washington State 10 Largest School Districts' Administrative Operations and Support Services

Dear Mr. Sonntag:

The Kent School District works hard to provide a high quality education to our students making efficient use of the available public resources. With that in mind, we appreciate the work done by the performance audit team and will carefully consider the recommendations made as a result of the audit. We appreciate the opportunity to provide a written response to the audit report. The district's ultimate course of action will take into account community input and a review by the board of directors.

Recommendation #4: Use of Portable Classrooms

"These districts should, in the next update of the Strategic Facilities Plan, develop and implement a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms."

District Response:

The use of portable classrooms is an important and temporary tool to enable school districts to house students during times when construction has not caught up with student growth, when the cost of permanent construction cannot be immediately met, and when new program requirements such as computer technology labs create a need for facilities in a short period of time.

Over the years, the Kent School District has used portables to bridge these gaps and to provide the best mix of available facilities, at reasonable cost, and in a reasonable time frame. With a slow-down in student growth over the past four years, the district has analyzed the use of portables and recognizes the need to reduce the district's inventory of portable classrooms.

Superintendent
12033 SE 256th Street
Suite A-200
Kent, Washington
98030-6643
Ph: 253-373-7701
Fax: 253-373-7231

Demolishing portables costs approximately \$6,500 per unit. Due to budget cuts in the 2008-09 school year the district has allocated limited funds for demolition or removal of portables. However, the district has plans to demolish or remove small numbers of the most deteriorated units as funds are available. Additional unused units will be removed over time, taking into account the resources necessary to accomplish this goal. In lieu of immediate demolition or removal of portables, the district plans to de-activate 60 portable classrooms for the 2008-09 school year. This will create savings by minimizing or eliminating maintenance and utility costs for these buildings for the near future. Deactivating these 60 portable classrooms will bring the district well below the 10% guideline cited in the performance audit report.

Recommendation # 10: Strategic Planning

“We recommend that Kent develop a formal district-wide strategic planning process that creates a traditional formal strategic plan with detailed strategies to achieve goals and objectives that coordinate all program areas.”

District Response:

The district is committed to both strategic and long range planning. Policy 1800 – Commitment to Strategic Planning and Policy 1810 – Annual Goals and Objectives outline the district’s commitment and process. The current strategic plan focuses on five major goals. As programs are developed to address each of these goals, presentations are made to the Board of Directors for adoption and funding. We are proud of the accomplishments completed under direction of this plan. The move to the middle school concept, the relocation of the ninth grade to the high school and the many accomplishments in student achievement speak to the focus of these five goals throughout the district.

The district held four Board/administrator strategic planning sessions between January and June to address the ongoing update to the original plan. Since the Board is currently involved in a superintendent search process, it was decided to complete the community and staff involvement of this process with the new superintendent since that will be the person charged with implementing the new plan.

Recommendation # 11: Financial Management & Cost Analysis

“We recommend that the district

- Consider implementing the Governmental Accounting Standards Board’s statement for its business type activities.
- Review the indirect cost allocation plan to ensure that costs are consistently classified as direct and indirect among all programs. Additionally, review the cost allocation plan to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation may increase the equitability of allocating indirect costs to those programs.

- Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods:
 - Based on the accurate current financial picture of the program or department. As previously discussed, districts do not have a true financial picture of the food service operations because indirect costs cannot be clearly allocated. This issue will affect all areas of analysis.
 - Performed by the budget or accounting office (or with their supervision) to ensure that indirect costs are properly attributed to the program, and that any changes to labor rates, or other costs are properly addressed (such as upcoming bargaining unit adjustments, or increases to borrowing rates).
 - Tailored to the specific needs and constraints of the districts. Things such as sunk costs for facilities, long-term labor agreements, or the inability to obtain capital funding must be factored into each analysis.
 - Performed on a periodic basis (of no more than 5 years) and also when significant changes occur (i.e. enrollment changes, increase in current costs, etc).
 - Quantitative as well as qualitative. The assessment must acknowledge that there are other factors such as the quality of services, community perception, and other non-cost factors that must be considered when making operational choices.

Districts have available resources to assist them in these analyses. Educational Service Districts often have cost studies or available research on different operational methods. Additionally, vendors often have cost analyses or will prepare customized analysis for little or no cost.”

District Response:

Kent School District uses the Accounting Manual for Public School Districts in the State of Washington published by the Office of Superintendent of Public Instruction and the State Auditor’s Office. This manual prescribes the Funds to be used, and specifically prohibits the use of proprietary funds.

In addition, Kent School District has for the past 22 years prepared a Comprehensive Annual Financial Report (CAFR) in accordance with the Governmental Accounting Standards Board’s Statement 34 - *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. In each of these years, the district has received The Certificate of Excellence from the Association of School Business Officials International, signifying that the CAFR conforms to the requirements of GASB and Statement 34.

For at least the past 14 years, the district has received a clean audit opinion from the Washington State Auditor’s Office (SAO) stating that the district’s financial statements are presented “in conformity with accounting principles generally accepted in the United States of America.”

Regarding conducting cost analyses, the audit states that “districts do not have a true financial picture of the food service operations because indirect costs cannot be clearly allocated.” We disagree with this conclusion. While utilizing a full cost accounting model to capture indirect costs is necessary to provide the total operational picture in a for-profit business, indirect cost methodology is less relevant to operational decisions in school districts because the decision to enter into these business type activities is not based purely on a profit motive, but on the requirement to provide meals and transportation services to our students.

Having established that understanding, the district routinely analyzes costs and operational methods in both the Food Service and Transportation departments in order to maximize efficiency and economy. Kent compares favorably with other districts in terms of lunch prices and quality, and transportation costs per mile, and as a percentage of the district’s overall budget. The district engages in competitive bidding for equipment, buses, food and fuel products, and works to find best practices in all aspects of food service and transportation operations.

We agree with the audit’s assertion that “The assessment must acknowledge that there are other factors such as the quality of services, community perception, and other non-cost factors that must be considered when making operational choices.” Our district has analyzed these non-cost factors and considered community input over many years of operations. Our experience shows that local control of district operations including food service and transportation enhances service to our students and community by ensuring responsiveness to quality concerns.

Although private vendors are always willing to provide “customized analysis for little or no cost”, they typically are not considered to be unbiased sources. In contrast, we consider the Educational Service District to be a good source of information and advice, and we will contact them and take full advantage of any resources they can offer in this area.

Recommendation #13: Internal Audit Function

“We recommend that:

- The district Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management.
- Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor.
- The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district’s goals.
- The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.”

District Response:

Kent has an internal audit position which, as pointed out in the audit report, is not a formal internal audit function with direct reporting responsibility to the board. This position and

specific level of audit activity is based on the district's analysis of risk, a long history of little or no fraudulent activity in the district, and cost considerations. The primary focus of the work of our internal auditor is in school buildings, and includes cash collections, enrollment counts, budget monitoring and reconciliation, proper use of purchasing cards, fixed asset inventory, and fundraising activities. The district believes that this position has been effective in improving district operations at a lower cost than would be incurred by a formal internal audit function.

Other audits include:

- An annual financial and compliance audit by the State Auditor's Office, with no findings in the last ten years.
- An annual Comprehensive Program Review of federal programs conducted by OSPI, with no findings in the three years the audit has been conducted.
- Other internal reviews within our payroll, human resources and accounting departments, depending on observations and recommendations of the State Auditor's Office and district staff.

We believe the additional cost of a fully independent internal audit function is not justified, given the district's risk profile and history of few audit issues or findings.

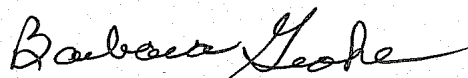
We will review the recommendations regarding the internal auditor function with our Board and take additional input at our public hearing.

Additional District Comment Regarding Fund Balance Management Policy

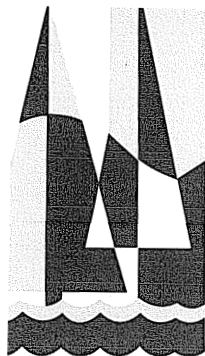
Finding #12 recommends that districts establish a formal policy on unreserved fund balance, using a 5 to 15% range as a guideline. It includes a table showing districts with adequate levels of unreserved fund balance, including Kent, indicating an 11.82% unreserved fund balance for FY 2006. This percentage is higher than the district's stated policy target of 5% because the unreserved fund balance shown in the table includes both designated and undesignated portions. Kent's fund balance policy requires that unreserved, undesignated fund balance be at least 5% of the following year's budgeted expenditures, net of contingency accounts. Using this calculation, the unreserved, undesignated fund balance for FY 2006 equaled 5.5% of net budgeted expenditures.

Again, thank you for the opportunity to provide a written response to the audit report. The district's ultimate course of action will take into account any information received from our public hearing, other community input and review by the board of directors.

Sincerely,



Barbara Grohe, Ph.D.
Superintendent



Lake Washington School District No. 414

DR. CHIP KIMBALL
Superintendent

JANENE FOGARD
Deputy Superintendent

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Lake Washington School District Response to Performance Audit by Cotton and Company

This Performance Audit provided an excellent opportunity to review the school district's operations and support services. As a school district, we are proud of the efforts of our operations and support staff members to ensure that schools are efficiently and effectively run so that students have the best learning environment possible. This performance audit was extensive, covering our administrative offices, facilities, transportation, human resources, communications, finance, payroll, benefits, and more. We are pleased that many of these functions received no recommendations for improvement. We also appreciate the commendation from the auditors for the district's efficient use of automated routing software for bus transportation.

For those recommendations provided by this performance audit, we appreciate the opportunity to respond. Please note that the District's Board of Directors and citizens have not yet been able to review or provide input on these responses.

There are some issues that are state-wide and/or will have budget implications for many school districts. It may be appropriate for the state to consider changes in these areas.

Response to Performance Audit Recommendations:

#2 Deferred Maintenance Backlog

Recommendation: Develop and implement a formal deferred maintenance plan to divest their accumulated deferred maintenance backlogs. This plan will include the appropriate actions needed to eliminate the deferred maintenance backlog and an establishment of a timeline to complete the work with a corresponding budget plan. Develop and implement a formal preventative maintenance program. A preventative maintenance program will help prevent the risk of unforeseen equipment and system failures; lengthen building and equipment life; and eliminate the costly accumulation of deferred maintenance. Identify the current deferred maintenance backlog and estimate the cost to correct all deficiencies. Implement a procedure to track all deferred maintenance items and estimated costs.

Response:

The District is actively involved in accessing, improving and formalizing the District's maintenance services. In 2004, the District implemented a new web-based computerized maintenance management system (CMMS) to manage all aspects of maintenance. During the 2006-2007 school year, outside independent consultants conducted assessments of maintenance, custodial and grounds operations. Subsequently, continuous improvement measures have been put into place along with the hiring of a new Manager of Maintenance, Repair and Operations.

In 2007, the district began formalizing a planned/ preventative maintenance work order process. Using an online maintenance management system, the district has scheduled planned maintenance on critical mechanical and fire, life and safety equipment. We are committed to continuing to improve our planned/ preventative maintenance program. Implementation will be dependent upon resource availability. Resources are devoted to scheduled inspections and correction of incipient failures identified by those inspections.

We appreciate these recommendations on deferred and preventative maintenance and will consider their implementation based on available resources.

#4 Excessive Use of Portables

Recommendation: Develop and implement a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms.

Response:

Use of portables is a balancing act. Portable classrooms allow flexibility in placing classrooms where needed, preventing overbuilding of classrooms that may eventually go unused. When built into the district master plan, the use of portable classrooms is an effective strategy for managing resources.

The demographics in Lake Washington are shifting. There is growth in some areas of our district while other areas are declining. Overall, our overall student population is projected to continue to grow. Portables allow us to meet the changing demographics of our 75 square mile geographic area (50 schools), responding to our capacity needs in a timely and financially prudent manner.

Additionally, the Lake Washington School District's current Six-Year Capital Facilities Plan states that our current portable classroom rate of 12% will decrease to 10.7% this year, 10.1 % next year and by 2013 it will even be lower. In 1992, there were 253 portable classrooms in the District. As of 2007, there are 133 portable classrooms. This trend demonstrates a responsible, planned reduction in the number of portable classrooms as part of our overall strategic facilities plan.

The report proposes 10% as the ideal maximum number of portables based on guidelines from the Texas Education Agency. Portable use varies considerably from state to state. For example, a 2001 study of portables in K-12 schools in California shows 37% use of portables. The State of Washington has not established guidelines or requirements for maximum or minimum levels of portable classrooms at K-12 public educational sites. If Washington school districts are to be held to a specific standard, then Office of the Superintendent of Public Instruction should review portable use and recommend an appropriate level based on needs in this state.

#8 Use of Purchasing Cards

Recommendation: Expand its purchasing card purchases to an optimal level. The district should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of their available supplies budget for purchasing card use.

Response: The district agrees that it should increase the use of procurement cards. The district currently provides procurement cards to all schools and departments that request them. We currently do allow the use of procurement cards for purchases under \$2,500. The district switched in 2007-08 to a procurement card program that offers rebates, recognized by the auditors as the largest rebate level currently being received by any district in this study. We have started paying regular bills, including large utility bills, through the procurement card program in order to capitalize on the rebate program. Through this new program, the district expects to receive rebates in excess of the \$23,700 that the report suggests.

Where the district disagrees with the report is the analysis that this increased usage could provide annual savings of \$818,000 a year to the district apart from the rebate. The fiscal analysis in the report suggests that accounting and management efficiencies will be obtained to this magnitude. While there are certainly efficiencies that will be obtained, there still remains a significant amount of management that must be provided to ensure appropriate spending and accounting. This work is done by secretaries and office managers in our 50 schools as well as the accounting and purchasing departments. In order for the LWSD to save \$818,000 in staffing costs, the district would have to eliminate over 13.5 clerical staff FTE or the equivalent of the entire purchasing department (3.5 FTE) and 10 school secretaries. We do not believe that increased use of procurement cards will allow us to eliminate 13.5 clerical positions.

#11 Financial Management and Cost Analysis

Recommendation: Consider implementing the Governmental Accounting Standards Board's statements for its business type activities.

Response:

The district follows the accounting and reporting requirements required in the Accounting Manual for School Districts issued by the Office of the Superintendent of Public Instruction and the Office of State Auditor. In addition, and without requirement, the District prepares audited annual financial statements, which comply with Generally Accepted Accounting Practices (GAAP) and Governmental Accounting Standards Board (GASB) 34 accounting principles. These financial reports not only reflect the financial position of the District but utilize depreciation of fixed assets, record long-term debt, amortize bond issuance costs, disclose budgeting and costing data as well as provide supplementary information in the form of notes to the financial statements and a management and discussion analysis. The District believes that these additional reports are extremely informative and useful to all of the parties seeking financial information about the Lake Washington School District.

The audit report also stated that the use of enterprise funds would allow districts to separately account for different programs. Enterprise or proprietary funds are not permitted for school districts in Washington State. Any change in use of enterprise funds should be considered and developed at the state level and cannot be implemented unilaterally by a local school district.

Recommendation: Review their respective indirect cost allocation plan to ensure that costs are consistently classified as direct and indirect among all programs. Additionally, review the cost allocation plan to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs.

Response: The District follows the regulations and guidelines put out by the Office of the Superintendent of Public Instructions regarding indirect rates and appropriate charges. Changes in indirect cost allocation should be developed at the state level to ensure consistent practices statewide.

Recommendation: Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods. Districts have available resources to assist them in these analyses. Educational Service Districts often have costs studies or available research on different operational methods. Additionally, vendors often have cost analyses or will prepare customized analysis for little or no cost.

Response: As a normal part of business practice in Lake Washington School District, we have consistently looked for more efficient ways of doing business. This has been particularly true in recent years due to the significant funding challenges in the state. Many of our programs, such as food service and transportation, conduct analyses in order to provide a better service or product and/or find ways to reduce costs.

The district uses current research and available resources when looking at program efficiency and effectiveness. Data that is used is verified for its validity, especially if provided by a vendor as to eliminate bias. The district has started a department review and continuous improvement process that will identify areas of efficiency improvement and/or program improvement for each department.

We appreciate the auditor's recommendations and will evaluate how we can improve our cost analysis functions given our limited resources available.

#13 Internal Auditor Function

Recommendation: The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of the district management. Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor. The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity and to be consistent with the district's goals. The District Board or Audit committee review, provide input to, and approve the internal audit annual work plan.

Response: The District currently employs an Internal Control Accountant who performs fiscal-related school and department level audits, including analysis of procedural compliance and internal controls.

The state auditor's office also provides an annual audit to ensure districts have adequate controls in place and are following procedures and state laws and regulations. Lake Washington School District regularly receives clean audits from the state. The position of Internal Control Accountant was added in the early 1990s following a recommendation in the district's annual audit by the state specifically to create a system that would monitor higher risk areas between audits.

The District Board of Directors utilizes a Policy Governance oversight strategy and has in place expectations regarding fiscal management and internal controls. The District and Board will consider this recommendation within the context of Policy Governance and its current practice.



Puyallup School District

Dr. Tony Apostle, Superintendent

August 8, 2008

Mr. Brian Sonntag, CGFM
Washington State Auditor
Insurance Building
P.O. Box 40021
Olympia, WA 98504-0021

RE: Puyallup School District #3 Response to the Performance Audit of the Washington State 10 Largest School Districts' Administrative Operations and Support Services

Dear Mr. Sonntag:

Thank you for providing us the opportunity to respond to the draft performance audit report of the ten largest school districts. Our response, attached, is being remitted by your requested date of August 8, which is prior to our exit conference on August 19. Should additional information come to light during our exit conference, we would respectfully request an opportunity to amend our response.

Because of the short timeline for submitting our response, we have not had an opportunity to discuss this response with our Board of Directors, nor have we had the advantage of hearing from our public. Although our response cannot include input from our Board of Directors or public, this input will be processed following the issuance of the final report, currently scheduled for the end of August.

If you need more information, please contact me at (253) 840-8950.

Sincerely,

for 
Dr. Tony Apostle
Superintendent

Enclosure

Street Address: 302 Second Street Southeast, Puyallup, Washington 98372
Mailing Address: P.O. Box 370, Puyallup, Washington 98371 Telephone: (253) 841-1301 FAX: (253) 841-8650

PERFORMANCE AUDIT OF THE TEN LARGEST SCHOOL DISTRICTS
Puyallup School District Response to Recommendations

Puyallup School District appreciates the opportunity to provide a written response to be included in this report. Although the district has received consistently clean audits for the past five years, nevertheless we are always looking for opportunities to improve services and we appreciate the review done by the performance audit team. The effort to streamline operations is particularly important since our resources are limited and we, like most districts, are already making significant budget reductions due to inadequate state funding for basic education.

Because these responses have not yet been reviewed by our Board of Directors and public input has not been provided, these responses are preliminary. We will review each recommendation carefully and determine the specific course of action that will be taken once the Board and the public have had an opportunity to provide input on the specific recommendations.

Response to Automated Bus Routing (Condition #1)

We recommend that Puyallup implement automated routing software.

We recommend that Puyallup ensure, by contract, that thorough training will be provided by the vendor. Full implementation should occur within the first year, and the department leaders must promote the change in order to gain the support of the staff.

Additionally, Puyallup should create a timeline to guide the continuing implementation process, and seek the advice of similar local districts that have fully automated its routing processes.

Because funding is limited and resources are allocated to the instructional programs to the extent possible, the district does not currently have funding available to implement an automated bus routing system. However, the Puyallup School District Board of Directors has placed a capital levy measure on the March 10, 2009 ballot. If approved by voters, this capital levy will provide resources for acquiring and implementing an automated bus routing system. We are hopeful voters will approve this measure so that this initiative can move forward in the near future.

Given how leanly staffed we are in the transportation operations department, we question whether or not the estimated savings cited by the auditors is realistically achievable. Nevertheless, we continue to expect some savings with full implementation of a bus routing system.

Response to Excessive Use of Portables (Condition #4)

Puyallup should, in the next update of the Strategic Facilities Plan, develop and implement a realistic plan to reduce the amount of portable classrooms to 10 percent or less of permanent classrooms. For Puyallup, it is not expected that his plan can be implemented within just a few years; it may require 10 years or more because of the large number of portables they are currently using.

On June 27, 2005, the Board of Directors commissioned the Citizens Facilities Advisory Committee (CFAC) and charged them with the responsibility to assess the facility needs of the district for the next 12 years. CFAC membership included at least one citizen representative from each school plus a handful of district resource staff. The group analyzed facility needs

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across the district and identified facility needs for the next 12 years. It prioritized projects by clustering them into three categories: 1) those needed in the first four years, 2) those needed in the next four years, and 3) those needed in the final four years.

From this document, the district produced a Long Range Capital Facilities Plan. This plan is reviewed and updated on an annual basis with approval by the Board of Directors. This plan forecasts the District's need for permanent housing, new construction, renovation and modernization, as well as a plan for financing proposed construction projects.

In both the CFAC report and the Long Range Capital Facilities Plan, the District has acknowledged the use of portables is not acceptable. Portables are more costly to maintain, require more custodial time, and require higher utility costs. While portables are not a preferred solution for long-term use, they do provide acceptable housing until such time as the community approves bonds to construct additional permanent space.

As stated in this recommendation, the Puyallup School District is utilizing portables until such time the passage of a bond is approved by the voters. Some relief to the use of portables has been identified due to the passage of the 2004 school bond levy. By placing a bond before the voters in March 2009, our hope is to further reduce the number of portables on sites. If this bond measure is successful, the District will build a new elementary school, provide additions to existing schools, and rebuild schools in various areas of the district thus reducing the need for as many portables.

Response to Use of Purchase Cards (Condition #8)

We recommend that Puyallup expand its purchasing card purchases to an optimal level. The district should consider, at a minimum, purchases of \$2,500 and less as purchases eligible for purchasing card spending, and set a goal of no less than 21.5 percent of their available supplies budget for purchasing card use.

Consider participating in a purchasing card program that offers a competitive rebate allowance, such as the program available through WASBO, or a purchasing card program that offers similar or greater rebate benefits available through other vendors.

We concur with the recommendation that the District explore a procurement card vendor that offers a rebate program. On August 5, the District was involved in a presentation and interview process with three potential vendors that provide rebate programs. This process was set up by the Washington Association of Business Officials and allowed school districts from around the state to participate. As of the date of this response, the Puyallup School District is still evaluating the presentation and interview materials from those vendors.

We concur there are some areas in which we can expand our procurement card use. In December 2007, the district expanded procurement card purchase types to include certain travel and technology items to our list of eligible expenditures and increased the purchase amount to \$5,000. Currently, we are looking at further expanding purchase types to include in the list of eligible expenditures.

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While we agree that use of purchasing cards can create efficiencies in some areas, we are primarily concerned with obtaining proper approvals and maintaining adequate documentation and internal controls, consistent with levels prescribed by our State Auditor. We also need to be mindful of bid award regulations and federal and state grant regulations. Therefore, we do not feel that our entire supply budget is available for purchasing card use. Nevertheless, we have identified this as one of the district's goals for the upcoming year and will continue to review and look for opportunities as they arise.

Puyallup School District is committed to accountability to our stakeholders. Although a modest cost savings may be achieved with greater use of purchasing cards, it would certainly not be of the magnitude suggested of \$4.7 million over five years without sacrificing accountability. Rather, there is merely a "work shift" as the burden of processing expenditure transactions is lifted from one department and placed on another. The suggested savings of \$4.7 million over five years would require the elimination of 16 office school secretary positions and the elimination of our entire accounts payable department (three staff members) to achieve those savings. This savings would not be achievable as the purchasing function is a small activity in comparison to all of the other duties assigned to a school secretary and an accounts payable staff member.

Response to Strategic Planning (Condition #10)

We recommend that Puyallup extend the annual strategic planning and goal-setting process to incorporate the input they obtain from employees and community members. This process should occur on a more regular basis than is currently practiced and include in annual strategic planning discussions and an examination of the effectiveness of Puyallup's organizational structure. Puyallup has a sound foundation for strategic planning and obvious commitment to the process. Implementing the recommendation would strengthen that foundation and extend the base of staff and community members who could contribute to the process and its success. Principal and community involvement would enrich goal-setting, heighten their commitment to Puyallup goals and, thus, increase opportunities for goal achievement.

The Puyallup School District is committed to a strategic visioning and planning process, and we are proud that our commitment to this process is proving successful in student achievement—our District's core mission.

This past spring, our students in the Class of 2008 ranked number one in Pierce County and also topped the chart among the 20 largest districts statewide for having met rigorous academic standards in reading and writing. Based on test scores released in early June, 98.8 percent of the district's 1,472 graduating seniors in our four high schools passed the reading and writing sections of the Washington Assessment of Student Learning or an approved alternative.

Through our 2003 strategic visioning and planning process, we identified four strategic directions—the highest of which was student achievement. Since that time, we have focused our resources toward improved student learning for each student in the district. That focus enabled students and staff to prioritize their work to reach that goal while also reaching goals in the three other strategic directions—human resources, communications, and accountability.

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This strategic plan was established with a 52-member committee which met five times in formal sessions from January 24 to May 28, 2003. Committee members also participated in numerous subcommittee meetings before completing their work which was presented to the Board of Directors during a Study Session on June 9, 2003. The Strategic Plan was approved by the Board of Directors on June 23, 2003.

Since that time, the Board of Directors has developed goals and initiatives within each of the four strategic directions which are reviewed annually in public session. Public comment is encouraged. Input is also encouraged through various types of formal and informal surveys and a scheduled series of meetings with the community including bi-weekly Soup's-On lunches with parents and community members and monthly grade-level meetings with parents. Once approved by the Board, the Superintendent's Cabinet develops the work plans needed to carry out the goals. Often, principals and community members are involved in the development of the work plans. Additionally, each school develops its own work plans which are based on the district's goals and initiatives. With a committee of staff and community members, each principal develops a Comprehensive School Improvement Plan for his/her school. Each school's plan is aligned with the district's strategic directions, goals, and initiatives, and is communicated to parents and community members, students, district administration, and the Board of Directors. Twice each year, progress made by staff on the completion of the goals of the entire district is reported to the Board of Directors in public session. On June 23, 2008, the Board of Directors approved its goals and initiatives for 2008-2011.

A full review of the organizational structure was conducted this past year. Based on recommendations by principals, staff, and other stakeholders, the District's administrative structure was organized into three regions. We are currently working to implement this system. An evaluation of the results of the change will occur periodically throughout the year.

The District's strategic visioning and planning process is based on a 10-year cycle. We expect to conduct our next full review in 2012-2013. Again, the process will be designed to include a broad committee of community and district personnel. Based on our student achievement and other indicators of success, we believe our strategic visioning and planning process is the right process for our students and community.

Response to Financial Management and Cost Analysis (Condition #11)

We recommend that the District:

- *Consider implementing the Governmental Accounting Standards Board's statements for its business type activities.*
- *Review their respective indirect cost allocation plan to ensure that costs are consistently classified as direct and indirect among all programs. Additionally, review the cost allocation plan to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs.*
- *Conduct and document periodic cost analyses that address the costs of*

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operating in the current method and comparing those costs to projected costs of other operational methods.

• Districts have available resources to assist them in these analyses.

Educational Service Districts often have cost studies or available research on different operational methods. Additionally, vendors often have cost analyses or will prepare customized analysis for little or no cost.

While the Puyallup School District values quality support services, it is committed to maintaining financially lean support programs, heavily prioritizing classroom and student improvement objectives over logistical infrastructure. We are proud of our record of providing quality support services in a financially solvent and economically efficient fashion.

Generally Accepted Accounting Principles (GAAP)

We agree with the performance auditors' assertions that governmental entities must be responsive to a number of different groups/organizations; thus, our financial statements should provide understandable, reliable, relevant, comparable, consistent, and timely information. We must ensure that our accounting systems are capable of providing the information necessary to satisfy the requirements of the various governing agencies and funding sources.

Since we comply with Washington State financial reporting requirements, pursuant to laws within the Revised Code of Washington, and the Accounting Manual for Public School Districts in the State of Washington, which is co-authored by the State Auditor's Office and the Office of Superintendent of Public Instruction (OSPI), we believe our statements are indeed meeting these goals. Our financial statements incorporate the five governmental fund types: General Fund, special revenue funds, Associated Student Body Funds (ASB), Capital Projects Funds, Debt Service, and Permanent funds. Proprietary funds are used to account for business type activities of a government and are supported, at least in part, by fees or charges. However, proprietary funds are not permitted by law for school districts in the State of Washington.

We elect not to prepare GAAP statements and consistently receive positive audit reports based on our current reporting methodology. This methodology is approved by both OSPI and the State Auditor's Office. Thus far, we have successfully sold bonds and have high ratings from both Moody's and Standards and Poors with our current financial statement presentation. In March 2008, Standards and Poors performed a review of our finances and upgraded our bond rating from AA- to AA. This reflects our continued approach to conservative fiscal management in the district.

Indirect Cost Allocation

OSPI has created a method of indirect cost allocation on behalf of the 295 school districts in the state with the U.S. Department of Education which we diligently follow. However, as the performance auditor's note in their overall findings, we believe our more aggressive cost allocation plan in the food services area provides greater accountability, responsibility, and focuses management on cost control which is in the overall best interest of our stakeholders. Thus, we will continue to leverage our support programs to the financial and service benefit of our students, staff, and community.

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Efficiency Studies

We recognize the value in conducting and documenting periodic program analyses which compare the costs of current methods of departmental operations with the projected costs of various other departmental operational models. Although these analyses have been conducted in Puyallup, they have not been documented or formally reported on a specific schedule. We will be contacting our Educational Service District, per this recommendation, to access their resources in conducting these periodic analyses. The district will prioritize areas to be studied and identify the appropriate resources available to assist with these studies. We will carefully take into consideration community expectations and financial factors when performing these analyses and will make decisions accordingly.

Response to Internal Auditor Function (Condition #13)

We recommend that the District:

- *The District Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District Management.*
- *Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor.*
- *The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district's goals.*
- *The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.*

The district's business office routinely performs assessments on operations of the district, utilizing many members of the entire organization in order to look for ways to improve processes, efficiencies and internal controls. Although we don't have a formalized audit plan established each year, reviews of certain areas are performed based on areas that are potentially high risk in nature. Areas reviewed identified as high risk in nature include ASB operations in schools, operations within the business department, cash receipting, state compliance areas for funding, federal compliance, and compliance with district policies and procedures.

We believe we have staff in place that have audit experience and training to perform these functions without officially hiring an internal audit function within the district. We feel the expense of creating a separate internal audit position would not justify the benefit derived. In addition, if the function of the internal auditor would require the position to pay for itself by looking for cost savings in the district, the independence of such position would be lost.

Finally, there is currently no funding provided by the state for such a position. If this function is deemed to be of primary importance by the Washington State legislature, we would request that funding for such a position be provided by the state.

We will review the recommendations of the internal auditor function with our Board and take additional input at our scheduled public hearing.

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Seattle Public Schools
Response to Performance Audit of Administrative Operations – Fall 2007

Seattle Public Schools appreciates the review of our administrative operations by the performance audit team lead by the State Auditors Office and will carefully consider its recommendations. Our Strategic Plan, “*Excellence for All*,” was adopted by the School Board in June 2008 and points the District towards better serving our students, strengthening leadership, and improving systems and infrastructure. We welcome the auditor’s perspective on opportunities to improve our journey towards our goals. Over the past year the Superintendent, Chief Academic Officer, and Chief Financial and Operations Officer commissioned independent external reviews of a wide variety of academic and operations functions. The purpose of these reviews was to determine what is working and what needs to be improved in each area. These reviews, and the work done to develop our strategic plan, place us in a position to respond effectively to the auditor’s recommendations. The reviews conducted include, in academics – curriculum; safety net services; bilingual services; and special education services. Operations reviews include finance, information technology, and human resources; with transportation, capital projects, and maintenance pending.

Following is the District’s response to the State Auditors Office’s performance audit recommendations:

Recommendation (Condition #2)

We recommend these districts:

- Develop and implement a formal deferred maintenance plan to divest their accumulated deferred maintenance backlogs. This plan will include the appropriate actions needed to eliminate the deferred maintenance backlog and an establishment of a time line to complete the work with a corresponding budget plan.
- Develop and implement a formal preventive maintenance program. A preventive maintenance program will help prevent the risk of unforeseen equipment and system failures; lengthen building and equipment life; and eliminate the costly accumulation of deferred maintenance.

District’s Response (Condition #2)

Seattle Public Schools identified the deferred maintenance backlog in the March 2008 update to the 2020 Facilities Master Plan. There are a number of strategies identified to reduce the backlog, which primarily includes using capital levy funds on the buildings scheduled for renovations or construction. The District also plans to ask voters, in February 2010, to renew the expiring BTA Levy. We anticipate that the levy package will include substantial funding for items listed in the backlog.

The District acknowledges that relying primarily on capital levy funds is insufficient to meet our preventive maintenance needs and we are developing a performance management system which

will partially address preventive maintenance. In addition, the Chief Financial and Operating Officer is leading a project team that is reviewing school capacity needs throughout the city. If the outcome of that work includes additional school closures, the preventive maintenance backlog will be further reduced.

Seattle Public Schools, like districts around the State, continues to be challenged by a fundamental funding gap between the costs of providing education services and the funding received from the State of Washington and other sources. We anticipate that this challenge will increase over the next several years. Therefore, we have very tough decisions to make in terms of trade-offs between general fund dollars directed to preventive maintenance versus general fund dollars directly to support students and teachers. We will continue to review this balance, examine staffing levels, and balance priorities.

Recommendation (Condition #3)

We recommend that Seattle initiate a study, and if feasible begin to implement further school closures. Seattle has taken an important first step by closing seven facilities, and offering them for sale or lease. Seattle plans to recalculate its building capacity by using its most correct occupancy and space allocation criteria, and develop a new student assignment strategy by the 2010-11 School Year. As a consequence, Seattle Public Schools should be able to develop a plan for additional school closures soon thereafter.

District's Response (Condition #3)

Seattle Public Schools concurs that we have excess capacity in specific areas of the city; however we have capacity shortages in other areas. Because of these imbalances, our capacity cannot be viewed in aggregate, but rather we must look to discrete areas of the city to determine if facilities need to be opened or closed to meet the current and projected demand.

Seattle Public Schools has initiated a number of projects that will help us to evaluate our current and projected needed capacity, as well as evaluate demographics and housing projections. The District's multi-phase capacity management project will enable us to identify short-term solutions in areas where we need to adjust capacity and long-term solutions to meet our enrollment projections. The District is creating a new student assignment plan which is scheduled for a 2010 implementation. These projects, along with the recently completed update of the Facilities Master Plan, enable the District to develop a multi-year plan to better align capacity to current and projected enrollment needs. The plan will take into account, among other factors, academic needs and the differences among areas of the city, including the potential need for closures and re-purposing of some of our buildings.

Recommendation (Condition #5)

Seattle should design, implement and perform a routine analysis of staffing levels. It should identify or develop staffing level ratios used to monitor actual levels and adjust staffing levels accordingly.

District's Response (Condition #5)

The recommendation above is with reference to the administrative staffing level of providing district-wide services. Our school resource allocation method, *Weighted Staffing Standards*, does allow for a routine analysis of staffing levels which includes staffing level ratios dependent on FTE enrollment and student characteristics.

It is critical to note that Seattle Public Schools is unlike any other district reviewed by the State Auditors Office in terms of scale and complexity. A recent review conducted by McKinsey & Company showed that relative to our national peer urban school districts, Seattle Public Schools compares favorably in administrative expenditures per student. However, McKinsey & Company also identified that Seattle Public Schools currently has systems and procedures which are very labor intensive, resulting in a higher staffing level. In addition, due to previous years' budget gaps, the District has not invested in professional development of its administrative staff, resulting in inefficiencies. The Strategic Plan, "*Excellence for All*" calls out these deficiencies and includes strategies to strengthen our leadership and systems, with the expectation of future efficiency gains.

We have begun to develop a performance management framework, as specified in our strategic plan. We also have trained and continue to support central managers in applying a project management discipline and specific framework to key projects. These include the strategies identified in the strategic plan as well as other designated key initiatives. The District is developing a new budgeting process to align our resources with the goals set forth by our new strategic plan. A component of this budgeting process will be the periodic evaluation of administrative staffing levels that is appropriate to support the instructional core and 93 schools.

Recommendation (Condition #11)

We recommend that the District:

- Consider implementing the Governmental Accounting Standards Board's statements for its business type activities.
- Review their respective indirect cost allocation plan to ensure that costs are consistently classified as direct and indirect among all programs. Additionally, review the cost allocation plan to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation, may increase the equitability of allocating indirect costs to those programs.
- Conduct and document periodic cost analyses that address the cost of operating in the current method and comparing those costs to projected costs of other operational methods.
- Districts have available resources to assist them in these analyses. Educational Service Districts often have cost studies or available research on difference operational methods. Additionally, vendors often have cost analyses or will prepare customized analysis for little or no cost.

District's Response (Condition #11)

Seattle Public Schools' Strategic Plan "*Excellence for All*" includes strengthening our financial analysis capabilities to better track and report on spending to improve efficiency and save money. As a result, the District launched a formal financial analysis project wherein various departments, such as food services, will be further analyzed. Prior to this initiative however, Seattle Public Schools already performed other analysis of our operations such as our warehouse and Food and Nutrition Services leading to the reduction of inventory levels and cost savings.

Seattle Public Schools will take into consideration the recommendations the auditors make; however, we conform to the to the regulatory reporting requirements as set forth by the *Accounting Manual for Public School Districts in the State of Washington* issued jointly by the State Auditor and the Superintendent of Public Instruction. Districts in the State of Washington are not required to conform to GASB 34, "*Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments*". Given the structural issues surrounding the State of Washington's under-funding of K-12 education, and the room for improvement in our administrative systems, Seattle Public Schools has chosen to not voluntarily conform to GASB 34. Prior to the issuance of GASB 34, the District received awards for financial reporting excellence from the Governmental Finance Officer's Association and the Association School Business Officials.

Over the next several years, Seattle Public Schools faces large financial challenges partially from the structural issues surrounding the State of Washington's under funding of K-12 education and will work towards gaining a better understanding of its operations to address the expected budget shortfall. We are redesigning our budgeting process and improving our financial analysis capabilities to help ensure we use the appropriate operating and cost allocation methods, and that we align our resources with the priorities set forth by our Strategic Plan, "Excellence for All".

Recommendation (Condition #13)

We recommend that the Finance Committee of the Seattle School Board immediately approve the Audit Charter.

District's Response (Condition #13)

Seattle Public Schools concurs with the auditors' recommendation. On July 9, 2008, the Seattle School Board approved the Audit Charter, formally creating the Internal Audit Office. The office now reports directly to the School Board Audit and Finance Committee, and the internal auditor has the independent authority to perform risk-based audits on the District's activities. A complete audit plan for 2008-2009 is being prepared for review by the Audit and Finance Committee.



Administrative Operations and Support Services Performance Audit— Findings and Responses for Spokane School District

The Spokane School District works diligently to provide a high quality education to our students making efficient use of the available public resources. With that in mind, we appreciate the work done by the performance audit team and the opportunity to provide a written response to the audit report. The school district's ultimate course of action will take into account review by our board of directors and community input.

Recommendation # 11: Financial Management & Cost Analysis

“We recommend that the district

- Consider implementing the Governmental Accounting Standards Board's statement for its business type activities.
- Review the indirect cost allocation plan to ensure that costs are consistently classified as direct and indirect among all programs. Additionally, review the cost allocation plan to determine the equitability of the plan over certain programs such as food service or pupil transportation. Revisions, such as excluding the cost of food or expenditures for bus purchases from the allocation may increase the equitability of allocating indirect costs to those programs.
- Conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to projected costs of other operational methods:
 - Based on the accurate current financial picture of the program or department. As previously discussed, districts do not have a true financial picture of the food service operations because indirect costs cannot be clearly allocated. This issue will affect all areas of analysis.
 - Performed by the budget or accounting office (or with their supervision) to ensure that indirect costs are properly attributed to the program, and that any changes to labor rates, or other costs are properly addressed (such as upcoming bargaining unit adjustments, or increases to borrowing rates).
 - Tailored to the specific needs and constraints of the districts. Things such as sunk costs for facilities, long-term labor agreements, or the inability to obtain capital funding must be factored into each analysis.
 - Performed on a periodic basis (of no more than 5 years) and also when significant changes occur (i.e. enrollment changes, increase in current costs, etc).
 - Quantitative as well as qualitative. The assessment must acknowledge that there are other factors such as the quality of services, community perception, and other non-cost factors that must be considered when making operational choices.

Districts have available resources to assist them in these analyses. Educational Service Districts often have cost studies or available research on different operational methods. Additionally, vendors often have cost analyses or will prepare customized analysis for little or no cost.”

School District Response:

Spokane School District uses the Accounting Manual for Public School Districts in the State of Washington published by the Office of Superintendent of Public Instruction and the State Auditor's Office. This manual prescribes the funds to be used, and specifically prohibits the use of proprietary funds.

Beginning with the fiscal year 2002-2003, Spokane School District has prepared a Comprehensive Annual Financial Report (CAFR) in accordance with the Governmental Accounting Standards Board's Statement 34 - *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. In each of these years, the district has received The Certificate of Excellence from the Association of School Business Officials International, and also received for the same years, a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association, signifying that the CAFR conforms to the requirements of GASB and Statement 34.

For many years, the school district has received an unqualified audit opinion from the Washington State Auditor's Office (SAO) stating that the district's financial statements are presented "in conformity with accounting principles generally accepted in the United States of America."

With regard to the establishment of proprietary funds, the school district supports this recommendation and, due to the preparation of the above referenced CAFR financial reports, is prepared and willing to implement proprietary fund accounting when and if this is permitted by state law.

Regarding conducting cost analyses, the audit states that "districts do not have a true financial picture of the food service operations because indirect costs cannot be clearly allocated." We do not totally agree with this conclusion. While utilizing a full cost accounting model to capture indirect costs and relating these costs to each and every program is necessary to provide the total operational picture of each program, disaggregating the proprietary funds if or when authorized will be necessary and will change the overall distribution of the indirect cost allocations. Regarding the proprietary fund accounting approach, if or when authorized, the indirect costs would be included in the analysis of each of the business type activities. However, the decision to have business type activity programs is not based purely on a profit motive, but on the requirement to provide meals, transportation services, printing services, and central stores services to our students and staff.

Having established that understanding, the school district routinely analyzes costs and operational methods in our food service, transportation, printing, and central stores departments in order to maximize efficiency and economy. The school district distributed and reviewed these cost studies with the visiting audit team. The school district understands and respects the recommendation to establish a regular schedule of cost studies as compared to our present situation of performing cost studies because of a need for a change.

Spokane School District compares favorably with other districts in terms of lunch prices and quality, and transportation weighted costs per mile. The school district engages in competitive bidding for equipment, food, fuel products, printing services, and central supplies and works to find best practices in all aspects of each of these areas of operations.

We agree with the audit’s assertion that “The assessment must acknowledge that there are other factors such as the quality of services, community perception, and other non-cost factors that must be considered when making operational choices.” Our school district has analyzed these non-cost factors and considered community input over many years of operations. Our experience shows that local control of district operations including food service, printing, and central stores enhances service to our students and community by ensuring responsiveness to quality concerns. The school district does analyze the transportation costs every five years when the transportation services contract is up for renewal.

Although private vendors are always willing to provide “customized analysis for little or no cost,” they typically are not considered to be unbiased sources. In contrast, we consider the Educational Service District to be a good source of information and advice, and we will contact them and take full advantage of any resources they can offer in this area.

Recommendation #13: Internal Audit Function

“We recommend that:

- The district Board or Audit Committee meet at least monthly with the internal auditor, without the presence of District management.
- Concurrence of the District Board or Audit Committee is required prior to termination of the internal auditor.
- The internal audit work plan be developed using a risk-based approach and evaluated annually. A risk-based approach is necessary to determine the priorities of the internal audit activity, and to be consistent with the district’s goals.
- The District Board or Audit Committee review, provide input to, and approve the internal audit annual work plan.”

School District Response:

Spokane School District has an internal control accountant audit position which, as pointed out in the audit report, is not a formal internal audit function with direct reporting responsibility to the school board. This position and specific level of audit activity is based on the school district’s analysis of risk, a long history of little or no fraudulent activity in the district, and cost considerations. The primary focus of the work of our internal auditor is with school buildings, and includes cash collections, enrollment counts, budget monitoring and reconciliation, proper use of purchasing cards, fixed asset inventory, and fundraising activities. The school district also utilizes this position to assist the Budget and Accounting Department workload during peak times of extraordinary need, such as year-end closing, etc.

The school district believes that this position has been effective in improving district operations at a lower cost than would be incurred by a formal internal audit function.

Other audits include:

- An annual financial and compliance audit by the State Auditor’s Office, with no findings in the last ten years.
- An annual Comprehensive Program Review of state and federal programs conducted by OSPI, with no findings in the past year the audit has been conducted.

- Periodic regulatory compliance audits from State and Federal agencies. For example, the State Department of Labor and Industries recently performed a compliance audit.
- Other internal reviews within our payroll, human resources and accounting departments, depending on observations and recommendations of the State Auditor's Office and district staff.

We believe the additional cost of a fully independent internal audit function is not justified, given the school district's risk profile, the number of audits performed and our history of few audit issues or findings.

We will review the recommendations regarding the internal auditor function with our School Board and take additional input at the required public hearing.



August 20, 2008



Arthur O. Jarvis, Ed.D.
Superintendent

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Brian Sonntag, CGFM
Washington State Auditor
Insurance Building
P.O. Box 40021
Olympia, WA 98504-0021

RE: Tacoma School District No. 10 Response to the performance audit of the Washington State 10 Largest School Districts' Administrative Operations and Support Services

Dear Mr. Sonntag:

Thank you for giving Tacoma School District No. 10 the opportunity to review and respond to the State Auditor's performance audit report of the Washington State 10 Largest School Districts' Administrative Operations and Support Services. The Tacoma School District is committed to the continual work of analyzing economy, efficiency and effectiveness of its policies, management, fiscal affairs, and operations of the district.

Recommendation #6

Tacoma should design, and perform a routine analysis of staffing levels to identify staffing level ratios used to monitor actual levels and adjust staffing levels accordingly.

District Response:

The staffing level in the Human Resources Department has developed as a result of a stand alone, inefficient and aging Human Resource Information System; integration of responsibilities not ordinarily assigned to Human Resources; and dedication of staff to functions frequently outsourced by other districts.

The current Human Resource Information System is being converted to a new software system as part of an integrated enterprise resource planning system for the District. It is expected that the first phase of the conversion will be implemented by the end of March 2009, with full implementation completed by January 2010. Efficiencies gained from utilizing an integrated data base will eliminate the need for redundant data entry and processing. The Employee and Manager Self Service modules will also provide for direct entry into the system by employees and managers, eliminating the need for Human Resources' staff to perform the data entry functions. Combined with revision of current business practices, the new ERP system will reduce the number of employees involved in data input and preparation and filing of source documents.

Since the data utilized in the audit was collected, the District has moved responsibility for professional development activities supporting instructional improvement from Human Resources to Program and Learning Support.

The District's benefits are administered through an independent trust, Sound Partnership. Four employees support the trust and are considered to be District employees, assigned to Human Resources. Most districts either outsource benefits administration or incorporate that work into the responsibilities of human resources, finance, accounting and payroll. Thus, Tacoma Public Schools reflect a level of support not typically found within the state.

Additionally, the District has maintained a traditional division of work supporting certificated, classified and administrative personnel. It is the intent of the District to move toward a more holistic, service team structure. The expected result is improved human resources support as well as gains in efficiency.

Recommendation #7

Tacoma should adopt Washington's capitalization threshold of \$5,000 and update Regulation 6211R to include this new threshold.

District Response:

On January 24, 2008, the Tacoma School Board passed a resolution that raised the capitalization threshold to \$5,000.

Recommendation #10

We recommend that Tacoma develop a strategic planning process that creates a traditional formal strategic plan with detailed strategies to achieve goals and objectives.

District Response:

By January 1, 2009, the Superintendent will draft a policy regarding Strategic Planning and submit it to the Board of Directors for consideration in the manner required by the Board for policy development.

Recommendation #11

We recommend that the districts consider implementing the Governmental Accounting Standards Board's statements for its business type activities; review their indirect cost allocation plans; and conduct and document periodic cost analyses.

District Response:

The district acknowledges the importance of having an accurate picture of the cost to operate programs in order to assess whether those programs are efficient and economical. Federal, state and local funding models and underfunded mandates play a crucial role in the district's ability to meet the expectations detailed in the performance audit.

- Governmental Accounting Standards Board's Statements - Tacoma School District prepares a Comprehensive Annual Financial Report (CAFR) in accordance with Governmental Accounting Standards Board requirements. The CAFR is audited each year by the Washington State Auditor's Office. Their audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. In addition, the audit assesses the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. For the past thirteen consecutive years the district has received the distinguished Certificate of Achievement for Excellence in Financial Reporting from both the Association of School Business Officials and Government Finance Officers Association.

We appreciate your recommendation that the Washington Legislature authorize the use of enterprise funds to account for school district's business-like activities. We look to the legislature for resolution of this finding. Once resolved, the district should have no trouble implementing this recommendation.

- Indirect Cost Allocation - The district concurs and will take the recommendations of analyzing its indirect cost rates for revenue generating programs under advisement. We will review our policies to determine a course of action which is reasonable, prudent and addresses the issues noted in the finding.

- Periodic Analysis and Efficiency Assessments -The district concurs that it should conduct and document periodic cost analyses that address the costs of operating in the current method and comparing those costs to other operational methods. Past studies have been conducted and will continue to be performed into the future. Such studies always consider cost and non-financial factors. The district will work with its board and seek public input toward this objective.

For the past five years, the district has conducted a financial, staffing and student ratio comparative analysis for the ten largest school districts. This analysis is one of several tools used to assist administration in benchmarking the cost of programs, activities and expenditure by categories such as salaries, benefits, supplies and materials, etc. In 2006-2007 the practice of benchmarking data was expanded to include a comparison of student counts to categories of personnel data (duty codes, base pay, number of FTE by functional activity etc.). These comparisons, along with non-financial factors, are considered during the budget development process.

Additionally, the district is making progress toward creating an accurate depiction of the cost to operate programs as follows:

The district recently launched an Enterprise Resource Planning (ERP) System and has gone live with the procurement and general ledger modules this past summer. Human Resources and Payroll modules are planned for implementation in March of 2009. Once the core systems are operational, the district will implement business intelligence and management custom dash boards features. The district believes the new integrated system and added functionality will enhance our ability to retrieve and analyze data from multiple sources, including but not limited to, the student and ERP systems. This new functionality will provide administration with the ability to closely monitor and model financial data.

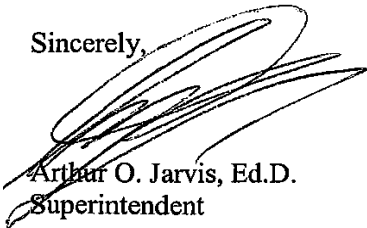
The district has also begun the process to acquire independent consulting services for purposes of conducting a print management assessment for both the printing and graphics department and the district-wide copier fleet. The district intends to use the results of the print management assessment to evaluate its options. Cost and non-financial factors will be considered in the decision-making process.

An analysis of the food services department operations is planned for next year. Such an analysis will include an independent study and review of the program and comparison to other operational models. As stated previously, cost and non-financial factors will be considered in the decision-making process.

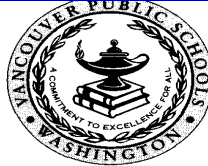
We appreciate the opportunity to comment on the audit findings and look forward to working with the State Auditor's Office, Legislature and Office of Superintendent of Public Instruction to promote accountability and cost-effective use of public resources.

If you require any further information, you may reach me at (253) 571-1010.

Sincerely,



Arthur O. Jarvis, Ed.D.
Superintendent

**Vancouver School District No. 37****Response to Performance Audit by Cotton and Company**

Prepared by Steven Olsen, Chief Fiscal Officer, in consultation with Dr. Steven Webb, Superintendent

The following comments are offered as an initial response to each recommendation with the caution that the district's Board of Directors and citizens have not yet had an opportunity to provide input on specific suggestions. While these recommendations represent the input of district staff, until the Board of Directors and citizens present their input, they are not final and are subject to change.

Response to Performance Audit Recommendations:**1. Implementation of Automated Routing Software:**

Vancouver Public Schools continues its implementation of the Versatrans routing software. The district is in the final stages of inputting all current bus stop locations (Basic and Special Ed.) for the 2008-09 school year bus routes. All other base information has been completed (street map, student data, school boundaries, selected GIS information). Following the completion of inputting the current routes, selected runs for both basic and special needs programs will be identified as test routes for the automated system. The system is anticipated to be fully operational beginning in early 2009. Some route changes may be implemented for the second semester as a result of automated efficiencies. The automated system will be used for all route planning for the 2009-2010 school year.

The district expects to realize operational cost savings as a result of the automated routing system. Although these savings have not been estimated formally, the potential operational savings noted in the audit report may be overstated. Previous manual routing procedures, although less efficient than computerized routing, are the results of district transportation personnel with significant routing experience.

8. Implementation of Purchasing Card Program:

As mentioned in the body of the audit report, Vancouver Public Schools implemented a P-Card program in August 2007. The program is available for all allowable purchases. During its first year of availability, the program grew from \$0 in August 2007 to \$170,000 in expenditures for the billing cycle ending in June 2008. The district is attempting to use its P-Card program wherever possible and anticipates additional growth in fiscal year 2008-2009. Also as mentioned in the body of the report, Vancouver has realized labor savings and has experienced efficiency changes, both of which are expected to save the district in excess of \$250,000 per year.

11. Financial Management and Cost Analysis:

a.) General Accepted Accounting Principles:

The financial statements of Vancouver Public Schools are prepared according to generally accepted accounting principles in effect prior to the GASB 34 requirement. The district's accounting policies materially conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. As mentioned in the audit report, school districts in Washington State are not authorized to use enterprise funds. Given the underfunded mandates experienced by the district, preparing any off-line accounting records will be delayed until funding is available.

Prior to the issuance of GASB 34, Vancouver Public Schools received awards for financial reporting excellence from the Governmental Finance Officers Association and the Association School Business Officials for more than 10 years.

b.) Efficiency Studies:

As part of a long-range fiscal health plan, Vancouver Public Schools will continue to conduct efficiency studies in programs, services, and operations.

The district reviews and compares spending to other school districts in the state to ensure that as a percentage of total spending, no program exceeds those benchmarks. If a program is found to be more costly than expected in comparison to other districts, a detailed review is performed. For example, the district recently made a major change to its food service delivery model, which will result in significant cost savings. In addition, the district eliminated its internal print shop due to cost saving alternatives provided by local printing facilities.

The district recognizes that many non-financial factors impact the decision to perform services with employees versus out sourced vendors. Over the years, the district has balanced community interest and financial factors.

12. Fund Balance:

Vancouver Public Schools is finalizing a fiscal health plan that will include a fund balance policy. The district intends to increase its unreserved fund balance responsibly and prudently over the next several years.

13. Internal Auditor:

The Chief Fiscal Officer for Vancouver Public Schools and his staff routinely perform quality control self-assessments and audits utilizing many members of the fiscal department in addition to the work performed by the .60 FTE employee identified as the internal auditor. The audit position is being incorporated into the fiscal office and will be used to review school building operations and to assist in Associated Student Body, grant compliance, and billing reviews. In addition, the position will assist in writing internal control documentation. The district is unable to fund this position as recommended due to the underfunded mandates placed upon the district by the state, including

approximately \$10 million of encroachments on local levy proceeds. Major areas of expense not fully funded by the state are cost of living adjustments for all employees, special education, transportation, and substitutes. The district has a long history of working constructively with the state auditor to refine its business practices and fiscal management over time.

A handwritten signature in black ink, appearing to read 'S. Olsen', with a stylized, cursive script.

Steven A. Olsen
Chief Fiscal Officer



**Washington State Auditor
Brian Sonntag**

APPENDIX F

October 13, 2008

RE: Addendum to State Auditor's Office Performance Audit No. 100013

After publication of the State Auditor's Office performance audit of the administrative operations and support services at the state's 10 largest school districts, Tacoma School District provided corrected information that requires a modification to Issue No. 6, which discusses the District's human resource staffing level.

Tacoma School District includes five employees who provide legal and community services when it counts the number of staff for its Human Resource Department. Those five employees were included in the number of human resource staff cited in the report, even though they do not perform work directly related to human resources. Therefore, the accurate student-to-human resource staffing ratio would be 1:914.

The information corrected does not affect the auditor's recommendations or reported cost-savings. The costs associated with these five employees were accurately excluded from the reported cost savings.

This addendum replaces Issue 6, which starts page 25 of the full report.

6. HUMAN RESOURCES

Tacoma School District’s human resource department has more managers and staff resulting in higher costs based on comparisons to the other nine school districts.

BACKGROUND

OSPI collects staffing information from school districts and reports this in a report titled the “S-275.” One purpose of the S-275 report is for the OSPI to calculate staffing ratios and other information used as a basis for state funding. For the 2005-2006 school year, we obtained the S-275 database from OSPI.

Using the database, we found Tacoma’s human resource department incurs a higher-than-average cost compared to the other nine districts. On a per full-time equivalent student enrollment basis, for the 2005-2006 school year, the Department expended approximately \$110 (adjusted to remove non-human resource costs charged in Tacoma’s department) versus an adjusted average of \$64 for the 10 largest school districts.

Tacoma’s department had 32 employees during the 2005-2006 school year, which is 32 percent more than the average staffing level in the human resource departments for the 10 largest school districts on a ratio of employees-to-students. This higher staffing level equates to an additional 10 employees at Tacoma. Based on Tacoma’s average human resources salary, this higher-than-average staffing level costs an incremental \$634,292 in annual salary.


Moreover, of the 32 employees in Tacoma’s human resource department, 25 percent were at a managerial level, whereas the managerial proportion of the 10 district average was 18 percent. These, HR managerial levels are disproportionately high in relation to district-wide managerial levels. Twelve percent of Tacoma’s executive/managerial/supervisory personnel belong to the HR department, compared to five percent for the 10-district average.

An underlying cause is a lack of leadership in the human resource department. The department has operated without a departmental head, although a Director was recently appointed. Additionally, the District and the human resource department in particular, have not performed staffing level analyses on a routine basis.

CRITERIA

To compare staffing levels in the HR departments at the 10 largest school districts, we used the S-275 staffing data for the 2005-2006 school year and calculated a ratio of HR staff to students. The 10-district average ratio of HR staff to student was 1:1339. Tacoma’s ratio of HR staff to students was 1:914.

RECOMMENDATIONS

Tacoma #6 	Tacoma should design and perform routine, comparative analysis of staffing levels and staffing level ratios to monitor actual levels and adjust staffing levels accordingly.
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POTENTIAL EFFECTS OF IMPLEMENTING THE RECOMMENDATION

Potential Cost Savings

As a result of operating above the average of the other nine districts, Tacoma School District spends an additional \$46 per full-time student, costing \$1.7 million during the 2005-2006 school year (\$1,330,000 of salary and \$345,000 of related benefits). Over five years, this costs an estimated \$8.4 million.