



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

May 28, 2019

Board of Directors
Kent School District
Kent, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial audit of the Kent School District from September 1, 2017 through August 31, 2018. We believe our recommendations will assist you in improving the District's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to District officials and personnel. If you have any further questions, please contact me at (253) 372-6250 ext.105.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Saundra Groshong

Saundra Groshong, Audit Manager

Attachment

Management Letter
Kent School District
September 1, 2017 through August 31, 2018

Transfers out of the Capital Project Fund

The transfers out of the capital project fund were communicated to our Office as a matter of public concern regarding a lack of board approval. We are addressing this in a management letter to communicate the results of our work.

State law (RCW 28A.320.330) requires that a capital project fund be established for major capital purposes, including costs associated with the application and modernization of technology systems, facilities, and projects. It further requires that a district transfer to its general fund the portion of the capital project fund used for this purpose. The Office of Superintendent of Public Instruction (OSPI) is responsible for developing the accounting guidelines for these transfers.

The 2017-18 School District Accounting Manual (SDAM) is the applicable manual for the audit period. We noted in chapters two (budgeting) and three (accounting guidelines) that this manual does not explicitly require Board approval for transfers from the Capital Project Fund to the General Fund for expenditures associated with the application and modernization of technology systems. As a result, we determined this transfer did not require Board approval.

The 2019-20 SDAM has been updated to state that, “a properly executed board resolution authorizing an interfund transfer is required.” This manual is not applicable to our current audit period.

During a board meeting on October 17, 2018, management discussed this item with the board and stated this action does not require board approval. The District believed the transfer did not require board approval because it was not required by the School District Accounting Manual, and board approval of the technology levy served as the board’s approval of the prescribed transfer.

In the May 22, 2019 Board meeting the Board approved Resolution No. 1556, which officially recognized the practice of transferring to the General Fund the amount of its technology levy expenditures which began in 2017-18. It also authorizes these future interfund transfers.

Additionally, during our audit, we reviewed supporting documentation for the \$3,638,518 transferred out of the Capital Project Fund, and determined these costs were an allowable use of Capital Project funds.

We recommend the District continue to following the prescribed accounting guidelines as determined by the SDAM.

Payroll costs funded by the Capital Project Fund

State law (RCW 43.09.210) prohibits resources restricted for certain uses such as capital projects from benefitting other funds. Our audit identified six employees whose payroll and benefits costs were partially funded by the Capital Project Fund, totaling \$242,440. The Executive Director of Budget and Finance described the process he used to determine these allocations, which included review of calendar appointments, discussions with appropriate staff, and analysis of position descriptions and duties. We determined these allocations appeared reasonable based on our understanding gained during the audit, known capital project activity, and related duties of identified staff. However, the District did not keep adequate documentation to support the allocations.

We recommend the District maintain adequate documentation to support cost allocations between funds.

Revenue recognition of property tax

For the year ended August 31, 2018, the District prepared its financial statements in accordance with OSPI's regulatory basis of accounting (commonly referred to as F-196 statements). This basis of accounting is described in the School District Accounting Manual and includes deviations from generally accepted accounting principles (GAAP).

The District previously prepared its financial statements in accordance with GAAP for years, however, it changed to the regulatory basis of accounting during the 2016-17 school year.

The 2017-18 SDAM states that property taxes collected after year-end are considered to be measureable, but not available. The effect of this treatment is that property tax collections in September of the subsequent year may not be treated as revenue, even though they are part of the current year's tax levy. This treatment is allowable under GAAP, however, is not allowable under this regulatory basis of accounting.

The District accrued September 2018 property tax collections, which were unallowable for F-196 statements. This caused the District to overstate revenue and ending fund balance by \$703,752 in the General Fund, \$86,628 in the Capital Project Fund, and \$272,478 in the Debt Service Fund. These errors represented less than 1 percent of revenue and were not material.

The District corrected these errors. Further, we noted the District corrected the control deficiency which lead to these errors, which was a lack of training in property tax recognition for F-196 statements.

We recommend the District continue to improve its internal control over financial statement preparation.