



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: Wenatchee School District No. 246

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independence and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for September 1, 2017 through August 31, 2018 - see draft report.
- Financial statement and federal grant compliance audits for September 1, 2017 through August 31, 2018 - see draft report.

Audit Highlights

The Accounting office worked diligently to provide all requested items timely.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Communications required by audit standards

In relation to our financial statement audit report, we would like to bring to your attention:

- There were no uncorrected misstatements in the audited financial statements.
- There were no material misstatements in the financial statements corrected by management during the audit.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal/>

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$38,000 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2020 and will cover the following general areas:

- Accountability for Public Resources 2018-2019 school year
- Financial Statement 2018-2019 school year
- Federal Programs 2018-2019 school year

The estimated cost for the next audit based on current rates is \$36,000 plus travel expenses, if any. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center is a resource for local governments that want to solve problems, innovate, and improve the value of their services to citizens. The Center is available by phone, online, or in person to offer assistance, programs, and tools – at no additional charge. You can contact the Center for more information at center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Wenatchee School District No. 246

For the period September 1, 2017 through August 31, 2018

Published (Inserted by OS)

Report No. 1023654





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

Issue Date – (Inserted by OS)

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

Report on Accountability

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

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

AUDIT RESULTS

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

About the audit

This report contains the results of our independent accountability audit of Wenatchee School District No. 246 from September 1, 2017 through August 31, 2018.

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

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the District’s uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the year ended August 31, 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- General Disbursements – general payments, credit card activity, employee reimbursements
- Student enrollment reporting – Special Education
- Financial condition and fiscal sustainability
- Surplus property
- Safeguarding of imprest accounts

RELATED REPORTS

Financial

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

Federal grant programs

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

INFORMATION ABOUT THE DISTRICT

Wenatchee School District operates seven elementary schools, three middle schools, one high school, an alternative high school, a technical skills center, a community pre-school program and a parent partner program school (176 students K-10th grade).

An elected, five-member Board of Directors governs the District. The Board appoints a Superintendent to oversee the District's daily operations as well as its employees. The employee count (the number reported to the U.S. Department of Labor) for 2017-2018 school year was approximately 1,431 employees. The District has approximately 572 certified staff and serves approximately 7,512 students. For fiscal year 2017-2018, the District operated on an annual budget of approximately \$103 million.

Contact information related to this report

Address:	Wenatchee School District No. 246 235 Sunset Avenue P.O. Box 1767 Wenatchee, WA 98801
Contact:	Karen Walters, Director of Accounting
Telephone:	509 663 8161
Website:	http://www.wenatcheeschools.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for Wenatchee School District No. 246 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Wenatchee School District No. 246

For the period September 1, 2017 through August 31, 2018

Published (Inserted by OS)

Report No. (Inserted by OS)





Office of the Washington State Auditor

Pat McCarthy

Issue Date – (Inserted by OS)

Board of Directors

Wenatchee School District No. 246

Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Wenatchee School District No. 246's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

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Pat McCarthy

State Auditor

Olympia, WA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Wenatchee School District No. 246 September 1, 2017 through August 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Wenatchee School District No. 246 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.665	Forest Service Schools and Roads Cluster - Schools and Roads - Grants to States
84.010	Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2018-001

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Wenatchee School District No. 246
September 1, 2017 through August 31, 2018**

2018-001 The District did not have adequate internal controls to comply with graduation rate reporting requirements.

CFDA Number and Title:	84.010 – Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	0202657, 0263214, 0263215, 0263216, 0263241, 0263260
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2018, the District spent \$1,632,226 in Title I program funds. The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families.

Federal regulations require recipients of federal awards to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Description of Condition

School districts must report graduation rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. Districts do this by submitting a graduation rate report that indicates each student’s enrollment status as graduated, transferred out, dropped out, migrated to another country, or deceased. The District must retain adequate support for how it classifies a student’s

enrollment status. To confirm a student transferred out, the District must have official written documentation that the student enrolled in another school or an education program that culminates in the award of a regular high school diploma.

The District's controls were not adequate to ensure accurate reporting of students as transferred out. Specifically, the District did not confirm that students reported as transferred out had appropriate supporting documentation before submitting the P-210 report. Without adequate documentation, the District may not report the students as a confirmed transfer.

We consider this internal control deficiency to be a material weakness.

This issue was not reported as a finding in the prior audit.

Cause of Condition

The District did not restrict access to its system to only those employees authorized to make changes to the status of students. Unauthorized changes were made to the classification of certain students, but the District cannot determine who made those changes.

Additionally, the District was aware that it needed supporting transfer documents before changing the status of students, but it did not have sufficient procedures in place to ensure staff gathered and retained forms to support reporting those students as confirmed transfers.

Effect of Condition and Questioned Costs

The District did not obtain official written documentation to support the transfer status for five of 17 students tested. For three of these students, the District determined it incorrectly coded them as transferred out because of unauthorized changes to students' status.

Based on the transfer coding errors, the District identified six additional students that it incorrectly reported because of the unauthorized changes in its system.

We are not questioning any costs. However, incorrect graduation rate data reduces the ability of the District and OSPI to measure the effectiveness of the District's efforts to help its students.

Recommendations

We recommend the District establish and follow controls to obtain and keep support for all students coded as transferred out before submitting the annual graduation rate report to OSPI. Further, we recommend the District monitor and restrict system access to employees who understand the reporting requirements.

District's Response

Transfer Code access is now restricted to four staff members who have the training and knowledge to enter correct transfer codes. Out of District Transfer Codes will not be entered until complete transfer documentation is received and verified.

Additionally, the procedure for final year-end review of annual graduation data is in the process of being modified to include an additional verification step to confirm graduation data matches transfer documentation.

Auditor's Remarks

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

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 200, (Uniform Guidance), Section 516 – Audit findings, establishes reporting requirements for audit findings.

Title 34 CFR Part 200, Title I – Improving the Academic Achievement of the Disadvantaged, Subpart A – Improving Basic Programs Operated by Local Educational Agencies, Section 34 – High School Graduation Rates, discusses requirements for reporting cohort graduation rates and how changes in student status are classified.

Title 34 CFR Part 200, Subpart A – Improving Basic Programs Operated by Local Educational Agencies, Section 19 – Other academic indicators – establishes the

requirement for Districts to have official written documentation to confirm a student transferred out.

Comprehensive Education Data and Research System (CEDARS) Reporting Guidance version 10.1 describes requirements for reporting cohort graduation rates and how changes in student status are classified.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Wenatchee School District No. 246
September 1, 2017 through August 31, 2018**

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wenatchee School District No. 246, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 5, 2019.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because, as described in Note 1, the *Accounting Manual for Public School Districts in the State of Washington* does not require the District to prepare the government-wide statements presenting the financial position and changes in financial position of its governmental activities as required by GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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PRELIMINARY DRAFT - Please do not duplicate, distribute or disclose

Pat McCarthy
State Auditor
Olympia, WA

April 5, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

**Wenatchee School District No. 246
September 1, 2017 through August 31, 2018**

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Wenatchee School District No. 246, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2018. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control

over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001 to be a material weakness.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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Pat McCarthy
State Auditor
Olympia, WA
April 5, 2019

**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS**

**Wenatchee School District No. 246
September 1, 2017 through August 31, 2018**

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Wenatchee School District No. 246, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page { }.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wenatchee School District No. 246, as of August 31, 2018, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. GAAP requires presentation of government-wide financial statements to display the financial position and changes in financial position of its governmental activities.

As described in Note 1, the Accounting Manual does not require the District to prepare the government-wide financial statements, and consequently such amounts have not been determined or presented. We are therefore required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Wenatchee School District No. 246, as of August 31, 2018, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Long-Term Liabilities is presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2019 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

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Pat McCarthy
State Auditor
Olympia, WA

April 5, 2019

FINANCIAL SECTION

Wenatchee School District No. 246 September 1, 2017 through August 31, 2018

FINANCIAL STATEMENTS

- Balance Sheet – Governmental Funds – 2018
- Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2018
- Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2018
- Statement of Net Position – Fiduciary Funds – 2018
- Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

- Schedule of Long-Term Liabilities – 2018
- Schedule of Expenditures of Federal Awards – 2018
- Notes to the Schedule of Expenditures of Federal Awards – 2018



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CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Wenatchee School District
September 1, 2017 through August 31, 2018

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2018-001	Finding caption: The District did not have adequate internal controls to comply with graduation rate reporting requirements.
Name, address, and telephone of District contact person: Larry Mayfield 235 Sunset Avenue Wenatchee, WA (509) 663-5929	
Corrective action the auditee plans to take in response to the finding: Transfer Code access is now restricted to four staff members who have the training and knowledge to enter correct transfer codes. Out of District Transfer Codes will not be entered until complete transfer documentation is received and verified. A comprehensive review of student system security access is also under way. Additionally, the procedure for final year-end review of annual graduation data is in the process of being modified to include an additional verification step to confirm graduation data matches transfer documentation. This year-end review process will include transfer documentation review at the building level, as well.	

Anticipated date to complete the corrective action:

Transfer code access restrictions has been completed.

Review of student system access will be completed by July 31, 2019.

Written procedure for final year-end review of annual graduation data will be completed by June 30, 2019.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

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Management Representations

The below representations from the District are included as a letter in connection with our audit of Wenatchee School District No. 246 for the period from September 1, 2017 through August 31, 2018.

Representations are in relation to matters existing during or subsequent to the audit period up to the date of the letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

The District confirms, to the best of its knowledge and belief, having made appropriate inquiries to be able to provide its representations, the following representations made to SAO during our audit. If the District subsequently discovers information that would change its representations related to this period, it will notify SAO in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.

4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. Except as discussed with you, we have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining controls to ensure compliance with applicable laws and regulations and safeguard public resources, including controls to prevent and detect fraud.
7. Except as discussed with you, have established adequate procedures and controls to safeguard public resources and ensure compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds, illegal activity, loss of assets, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all material events and transactions have been properly recorded in the financial records.
10. We are responsible for taking corrective action on audit findings and have developed a corrective action plan.

Additional representations related to the financial statements:

11. We acknowledge our responsibility for fair presentation of the financial statements, and believe financial statements are fairly presented in accordance with the *Accounting Manual for Public Schools in the State of Washington* (Schools Manual), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
12. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
13. Revenues are appropriately classified by fund and account in accordance with the Schools Manual.
14. Expenditures are appropriately classified by fund, program, activity and object in accordance with the Schools Manual.
15. Fund balance components (nonspendable, restricted, committed, assigned and unassigned) are properly classified in accordance with the Schools Manual.
16. Significant assumptions we used in making accounting estimates are reasonable.

17. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the District is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements and other loss contingencies.
18. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
19. We acknowledge our responsibility to include all necessary and applicable disclosures required by the Schools Manual, including:
 - a. Description of the basis of accounting, summary of significant accounting policies and how this differs from Generally Accepted Accounting Principles (GAAP).
 - b. Disclosures similar to those required by GAAP to the extent they are applicable to items reported in the financial statements.
 - c. Any additional disclosures beyond those specifically required by the Schools Manual that may be necessary for the statements to be fairly presented.
20. We acknowledge our responsibility for reporting supplementary information (the Schedule of Long Term Liabilities and the Schedule of Expenditures of Federal Awards) in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content, in accordance with those requirements.
21. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
22. We believe there are no uncorrected misstatements that would be material individually and in the aggregate to the financial statements taken as a whole.
23. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced

in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.

Additional representations related to expenditures under federal grant programs:

24. We acknowledge our responsibility for complying, and have complied, with the requirements of 2 CFR § 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.
25. With regards to your audit of federal grant programs, we have made available all relevant and requested information of which we are aware, including:
 - a. All federal awards and related grant agreements (including amendments, if any), contracts with pass-through entities, service organizations and vendors, and correspondence.
 - b. All communications from federal awarding agencies, vendors, service organizations or pass-through entities concerning possible noncompliance.
 - c. All information regarding corrective actions taken and management decisions or follow-up work performed by federal or pass-through agencies on any findings reported in the past.
 - d. All documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - e. Interpretations or other support for any situations where compliance with requirements might be questionable or unclear.
26. Except as reported by the audit, we have identified and complied with all direct and material compliance requirements of federal awards.
27. Management is responsible for establishing effective internal control and has, except as reported by the audit, maintained sufficient control over federal programs to provide reasonable assurance that awards are managed in compliance with laws, regulations, contracts or grant agreements that could have a material effect on each of our federal awards.
28. Federal program financial reports and claims for advances and reimbursements are supported by the accounting records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards.
29. Copies of federal program reports provided to you are true copies of the reports submitted, or electronically transmitted, to federal agencies or pass-through agencies, as applicable.

We are responsible for, and will accurately prepare, the auditee section of the Data Collection Form as required by the Uniform Guidance.