

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



Willamette Education Service District: Recommendations Follow-up

Background

In 2010, the Secretary of State Audits Division issued an audit report with recommendations to improve the management, financial practices, and control environment at the Willamette Education Service District (WESD). Areas of concern included insufficient controls, lack of transparency, poor governance practices, and the overall culture at WESD. The report included recommendations to the WESD Board, WESD Superintendent and management, and the Oregon Superintendent of Public Instruction. This report provides the implementation status of those recommendations as of January 2011. Because it is a follow-up report on previously issued recommendations, we were not required to follow generally accepted government auditing standards.

Results

Since the release of our original audit report in January 2010, the WESD Board, Superintendent and management have made significant efforts to improve management and governance practices. Several recommendations directed to the WESD Board have been fully implemented, and all recommendations directed to the WESD Superintendent and management have been at least partially implemented, with some fully implemented.

Most noteworthy are WESD's efforts to increase transparency regarding its use of public resources, including how rates charged to component school districts for services were developed and whether or not WESD expended at least 90 percent of its State School Fund and local revenues on services or programs. WESD has modified its accounting system so that school districts' 90 percent portion of resolution dollars is tracked separately from the 10 percent portion WESD retains. In addition, as we conducted our follow-up work at WESD, both staff and management were very receptive to additional feedback regarding the status of the audit recommendations and other issues that came to our attention.

Even with WESD's significant efforts to date, much work remains to be done before all of the recommendations are fully implemented and sustainable changes occur. We acknowledge that the significance of change

needed at WESD requires a long-term effort and commitment, and that full implementation of all recommendations may not have been feasible in the time since the release of our initial audit report.

To continue to improve its management and financial practices, WESD should undertake additional efforts to be transparent with school districts about the total allocation of funds available to each district and WESD's use of Medicaid reimbursements. WESD should also improve its practices in the areas of documenting decisions regarding accounting fund structures, competitively selecting personal service contractors and negotiating prices with them, and managing information systems security access.

Many of the problems we previously identified at WESD were a direct result of the unhealthy culture and environment the WESD Board and management created and condoned. We found that although the new Superintendent, Board and WESD managers have worked hard to improve this situation, more should be done to ensure a healthy working environment for staff and provide better accountability and stewardship for public resources.

Unlike WESD, the Oregon Department of Education (ODE) has taken little action to address our recommendation to develop and promote best practices for education service districts (ESDs). In early 2010, ODE sent a survey to the other 19 ESDs asking whether the issues we identified in the WESD audit were a problem for them. For those issues that were a problem, the survey asked for proposed solutions. For those that were not, it asked why they were not problems. ODE compiled this self-reported information, but had taken no further action to date.

The following table provides greater detail on the implementation status of each recommendation. Recommendations highlighted with shading are overarching recommendations. Recommendations listed below those are subcomponents of the overarching recommendations. As applicable, detailed agency responses to our conclusions are noted in red italics in the table. Summary responses can be found starting on page 16.

Recommendations to the WESD Board

Audit Recommendations to the WESD Board	Status of Recommendations	Additional Comments
Hire a Superintendent who will take the necessary steps to establish effective management controls, improve governance practices, increase transparency, and build a culture of integrity at WESD.	Fully Implemented	The WESD Board hired a new Superintendent in July 2010. Since that time, the Superintendent has begun to build a system of accountability and transparency at WESD. However, this is an ongoing process that will require long-term efforts on the part of the WESD Board, the Superintendent and staff.
	<i>WESD Response:</i>	<i>The WESD Board, Superintendent and staff will continue to emphasize accountability and transparency in building a sustainable agency culture of effective management and integrity.</i>
Build an accountability system that ensures all Board members obtain a sound understanding of WESD. Specifically:	Partially Implemented	<i>See comments below.</i>
<ul style="list-style-type: none"> • Obtain regular briefings from the Superintendent on plans, actions taken, and results regarding WESD operations, finances, accomplishments and challenges. 	<ul style="list-style-type: none"> • Fully Implemented 	<ul style="list-style-type: none"> • Board members received regular updates about the financial status of WESD's operations, finances, accomplishments and challenges from the Superintendent and program directors. Board meeting minutes indicate Board members engaged presenters, demonstrating a greater level of involvement and scrutiny of WESD activities than we previously noted.
	<i>WESD Response:</i>	<i>WESD's Board is committed to engaged, active oversight of the agency's programs and activities.</i>
<ul style="list-style-type: none"> • Supplement its contract for the annual financial audit with periodic reviews of internal controls of purchasing, contracts, and other public stewardship topics. Schedule Board briefings for independent financial auditors to present their results and any identified internal control weaknesses. 	<ul style="list-style-type: none"> • Fully Implemented 	<ul style="list-style-type: none"> • WESD contracted in 2010 for internal control reviews of its use of Medicaid funds and other business service functions, such as compliance with new policies and procedures for travel reimbursements and purchase card expenditures.
	<i>WESD Response:</i>	<i>Regular reviews of business practices will be maintained as an ongoing measure of adherence to high standards and to assist with adoption of best practices.</i>

Recommendations to the WESD Board

		<p>Independent financial auditors presented the results of WESD's audited financial statements for fiscal years 2009 and 2010 to the Board and WESD management.</p> <p><i>WESD Response:</i> Auditors from Pauly, Rogers & Company gave WESD's audit for 2009-10 an unqualified" rating, showing confidence in the accuracy of WESD's fund accounting.</p>
<ul style="list-style-type: none"> Establish regular communications with school district board members and management in order to improve transparency and working relationships. 	<ul style="list-style-type: none"> Fully Implemented 	<ul style="list-style-type: none"> At the direction of the Board, the Superintendent provided regular updates to WESD's 21 component school districts on things such as Board actions, the Local Service Plan, and WESD's improvement efforts. <p>In September 2010 the Board appointed two component school district superintendents as non-voting advisory members and tasked them with facilitating communication between district superintendents and the WESD Board. School district superintendents also received copies of WESD Board meeting minutes.</p> <p>In December 2010, WESD released its "Accountability Report to Stakeholders" on behalf of the Board, It included a financial overview of WESD and outlined the 2009-10 district allocations of resolution funds and funds for related contracted services.</p> <p><i>WESD Response:</i> Communication with school district board members and management will continue to be a priority for WESD. As primary partners, transparency and regular information sharing with school districts is essential.</p>
<ul style="list-style-type: none"> Create a mechanism for WESD staff to communicate concerns directly to the Board. 	<ul style="list-style-type: none"> Partially Implemented 	<ul style="list-style-type: none"> Board policies readopted in June 2010 still require staff wishing to initiate communication with the Board to obtain permission from the Superintendent. WESD's Complaint Procedure allows staff to communicate directly with the Board only if the complaint is against the Superintendent. <p><i>WESD Response:</i> WESD policy currently allows staff communication with the WESD Board. The Superintendent will clarify the policy language to better reflect its intent. The Board has also instituted open comment periods before and after each meeting that are used by WESD staff and the public.</p>

Recommendations to the WESD Board

Define roles and expectations and establish Board policies and recommendation to improve WESD.	Partially Implemented	<i>See comments below.</i>
<ul style="list-style-type: none"> • Establish a WESD code of ethics and supporting policies and procedures that represent the Board’s philosophy on public stewardship. 	<ul style="list-style-type: none"> • Partially Implemented 	<ul style="list-style-type: none"> • The Revised Code of Ethics policy for staff focuses only on potential conflicts of interest and gifts to staff. Board policy still does not convey the Board’s philosophy on public stewardship.
	<i>WESD Response:</i>	<i>WESD will update policy to more clearly convey the Board’s philosophy on public stewardship. All staff currently receive required training on government ethics.</i>
<ul style="list-style-type: none"> • Review and ensure that WESD management resolves any issues of concern identified in communications with contract financial auditors, WESD staff, school district officials, and the Oregon Department of Education. 	<ul style="list-style-type: none"> • Fully Implemented 	<ul style="list-style-type: none"> • The Board created an Audit subcommittee to review and advise it on issues of concern identified by contract auditors. The WESD Superintendent and program directors inform the Board of concerns identified in communications with component school district officials and ODE. The Board also receives information about concerns from school districts from its non-voting Board members. <p style="margin-top: 10px;">According to the new WESD Board Chairman, Board members now openly share information, discuss potential solutions and have followed up on concerns raised.</p>
	<i>WESD Response:</i>	<i>The current practice of open sharing of information and concerns will be sustained as a core value for the WESD Board, Superintendent and staff.</i>
<ul style="list-style-type: none"> • Conduct at least annual performance reviews of the Superintendent using methods that produce meaningful assessments and plans of action, such as those recommended by the Oregon School Boards Association. 	<ul style="list-style-type: none"> • Partially Implemented 	<ul style="list-style-type: none"> • This recommendation is partially implemented only because of the timing of the Superintendent’s evaluation, which is due in July 2011. WESD has implemented the 360-degree evaluation process the Oregon School Boards Association recommends, including establishing goals for the Superintendent that are the basis for the evaluation. WESD has also requested feedback from all employees and from component school district superintendents and boards.
	<i>WESD Response:</i>	<i>The annual performance review of the WESD Superintendent is in process and will be presented to the WESD Board at the May 10, 2011 meeting. Results of that review will be posted on the WESD web site.</i>

Recommendations to the New WESD Superintendent and Management

Audit Recommendations to the new WESD Superintendent and Management	Status of Recommendations	Additional Comments
Establish expectations and act accordingly to create a working environment that values good stewardship of public resources.	Partially Implemented	<i>See comments below.</i>
<ul style="list-style-type: none"> Maintain an accounting system that produces transparent financial information showing how WESD managed and distributed its monies and services to school districts. 	Partially Implemented	<ul style="list-style-type: none"> WESD established a Superintendent Rate Subcommittee, comprised of WESD and school district employees, who were tasked with reviewing and analyzing rates charged for WESD services. Rates published in the local service plan have been agreed to by the school districts and are now substantiated by documentation. <p><i>WESD Response:</i></p> <p><i>WESD rates are developed in a transparent, collaborative manner.</i></p> <ul style="list-style-type: none"> WESD disclosed its rationale for varying its indirect cost rates, which reduced the appearance of inequitable allocation of indirect costs to various programs. <p><i>WESD Response:</i></p> <p><i>Indirect charges are based on an accepted rationale.</i></p> <ul style="list-style-type: none"> WESD reduced the risk of erroneous deposits and account coding, and the risk of fraudulent checks, by no longer using purchase orders to issue checks payable to WESD. <p><i>WESD Response:</i></p> <p><i>Internal payments by check have been discontinued.</i></p> <ul style="list-style-type: none"> WESD demonstrated how it calculated school districts' 90 percent share of resources. However, in reviewing the methodology it used to determine resources to allocate, we found for fiscal years 2010-11 WESD did not include federal stimulus funding totaling \$1.3 million, nor did it include interest from local taxes totaling about \$350 as required by statute.

Recommendations to the New WESD Superintendent and Management

WESD Response:

WESD was notified by ODE of Federal Stimulus Funding of \$1.3 million for this school year. The instructions from ODE for the distribution of those funds were unclear and WESD sought clarification. With the assistance of the Secretary of State audit team, direction was obtained. The funds have not yet been claimed, but will be claimed and distributed with the \$350 in property tax interest to component school districts.

Additionally, WESD did not have a methodology in place to compare differences between estimated and actual state school fund revenues. As a result, school districts may not be aware when they have more revenue than expected or when they could potentially expend more than they are due.

WESD Response:

A process to compare estimated and actual State School Fund revenue will be shared with component superintendents in June 2011.

Finally, the process WESD used to determine the amounts available to school districts was not accurate. As a result, the funds available to school districts were not allocated based on the school districts' average daily membership.

WESD Response:

Review of the process to determine school district allocations using ADMr is completed and a correction implemented retroactive to July 1, 2010. This resulted in a slight adjustment to allocations that will be communicated to school districts in the year-end statements.

- Starting in October 2010, WESD sent quarterly statements to the school districts, showing services requested and used, and remaining balances. However, each district's total allocation of funds was not provided, making it impossible for them to review the accuracy of the calculation and the basis for fund totals.

WESD Response:

Individual school district fiscal statements now include total allocations of funds. A modified quarterly report will be created by a committee of school district and WESD staff to be implemented prior to the final statement for this year to facilitate year-end reconciliation.

Recommendations to the New WESD Superintendent and Management

- WESD has separated Medicaid revenue from its general fund, allowing it to demonstrate how it fulfilled its contractual requirements with ODE for the use of Medicaid reimbursements for early intervention and early childhood special education services.

However, WESD is still not able to demonstrate a transparent accounting of the entire Medicaid process. For example, the same projected costs were included in multiple cost pools. Specifically, we traced costs for one physical therapist and found personnel and other associated costs were included in the rates or budgets related to resolution services, regional program services and Medicaid fee for service charges.

Additionally, WESD used historical hours and salary amounts to determine a billing rate. However, it did not reconcile amounts billed to actual costs at year-end so that it could adjust future billings as necessary. Also, WESD has not assigned a Medicaid program administrator with responsibility for tracking Medicaid funds in their entirety from budget to expenditure of reimbursements. Finally, WESD did not report to the school districts on its use of Medicaid reimbursements.

WESD Response:

The process for Medicaid reimbursement claiming and utilization of the funds is improved. WESD established a Medicaid administrator in April, 2011 and identified specific staff to be trained by July, 2011 to handle all aspects of the Medicaid reimbursement process. Reports to school districts on Medicaid reimbursement will be made when school district resolution money has funded the service; however, most services for children birth to kindergarten are funded by grant money rather than school districts.

Recommendations to the New WESD Superintendent and Management

<ul style="list-style-type: none"> Upgrade WESD's system of internal policies, procedures, and internal controls to better align with best practices in other government organizations. Areas of particular concern include: 	<p>Partially Implemented</p>	<p><i>See comments below.</i></p>
<ul style="list-style-type: none"> Designating school districts monies separately within its accounting system. 	<p>Fully Implemented</p>	<ul style="list-style-type: none"> School district monies are now treated in the accounting system as designated funds, which helps reduce the risk of comingling school district funds with WESD funds. <p><i>WESD Response:</i></p> <p><i>The WESD accounting system will continue to separate allocations of funds to school districts and provide transparent reporting on the status of those funds.</i></p>
<ul style="list-style-type: none"> Documenting and maintaining a record of approvals and transactions. 	<p>Partially Implemented</p>	<ul style="list-style-type: none"> WESD has developed a process and form to document budget transfers and approvals. Superintendent and Board approval are also required under specific criteria. <p><i>WESD Response:</i></p> <p><i>The budget transfer process is fully implemented.</i></p> <ul style="list-style-type: none"> There is now a record of approval by the Superintendent for the rates charged to component school districts for resolution services. <p><i>WESD Response:</i></p> <p><i>Resolution service rates are reviewed and approved by the superintendent.</i></p> <ul style="list-style-type: none"> WESD has not completely documented their decisions and methodology for establishing a new fund structure. For example, although we were provided a cross walk from prior funds to new funds, WESD had not documented discussions, considerations and approvals necessary to establish the new fund structure. Additionally, the process of closing the funds was unnecessarily complicated due to transactions posted to the accounts after they should have been closed. <p><i>WESD Response:</i></p> <p><i>The process to close agency funds will be clarified and communicated to the WESD Board. As grant funds and other revenue sources are established and subsequently expire, the periodic opening and closing of funds will continue to be required. Documentation of the process has been standardized and fund changes will be reported to the Board.</i></p>

Recommendations to the New WESD Superintendent and Management

- Developing and enforcing procedures for contracted services.

Partially Implemented

- In July 2010, WESD readopted Board policies for contracted services and hired a Contracts Specialist. WESD also created a procedures guide for personal service contracts and revised its personal service agreement to include a “not to exceed” amount, additional terms and conditions, and a scope of work section. However, WESD still lacks written procedures that instruct staff as to how to competitively select personal service contractors, negotiate price with the contractor, and perform contract monitoring.

WESD Response:

WESD adopted policy that prescribes procedures for the selection of contractors and improved standard contract language and guidelines. Since the Secretary of State visit began, WESD has developed a packet of instructions and prepared forms that will document the process for staff to use in selecting and awarding contracts.

We reviewed all personal service contracts for fiscal year 2010 that contained a “not-to-exceed” amount, which totaled about \$1.8 million, and found that none were awarded based on a competitive selection process. We also found that contractor prices were not negotiated and contract monitoring was not performed. Additionally, contracts that without a “not-to-exceed” amount were not competitively awarded, contractor prices were not negotiated and contract monitoring was not performed,

WESD Response:

WESD followed the legal and established process for contractor selection. Documentation has been standardized and will be maintained in the contract file by the Contracts Specialist to simplify record keeping and to assure proper contract monitoring.

- Developing comprehensive policies and procedures in the areas of travel reimbursements, purchase cards, and catered meals.

Fully Implemented

- WESD developed comprehensive policies and procedures for purchase cards, travel reimbursements, and catered meals and refreshments. However, we still question the decision to provide catered meals and refreshments for meetings.

WESD Response:

The recommendations from the Secretary of State relating to travel reimbursement, purchase cards and catering are fully implemented.

Recommendations to the New WESD Superintendent and Management

According to WESD, total catering charges between January 2010 and February 2011 were about \$47,000, including about \$13,300 for catered meetings organized and reimbursed by outside groups renting facility space. In 2010, WESD also paid an employee about \$33,000 to facilitate room rentals and catering for meetings. According to WESD, room rental fees are budgeted at \$65,000 for fiscal year 2011 to cover the cost of the room reservation clerk. Additionally, the contract with WESD's on-site caterer has not been renegotiated or bid out to other potential contractors since its original execution in 2000.

WESD Response:

WESD provides inexpensive meals for working lunches with non-agency staff during training and meeting functions, in accordance with policy, grant guidelines, and common practice in K-12 school districts and ESDs. Sixty-three percent of the catering cost was related to 183 events for grants, contracts and regional meetings, 14% to facilities rentals to outside agencies, and the balance was internal functions, such as hiring committees, involving personnel outside the agency during working lunches. The catering contract was re-bid in March, 2011.

We also reviewed a selection of purchase card transactions, travel reimbursements and catered meal documentation and found, with minor exceptions, these expenditures were in compliance with WESD's revised policies and procedures. Exceptions were dinners purchased in Salem using a purchase card while not in travel status.

WESD Response:

The purchase card program is operating within agency policy and procedure. The listed exceptions received appropriate approval, and WESD has strengthened guidelines to disallow working dinners.

Recommendations to the New WESD Superintendent and Management

- Developing and implementing written procedures that address financial reporting and accountability. Partially Implemented

WESD Response:

- WESD has developed approval routes and assigned authorized approvers for requesting and submitting payment for goods and services.

The accounts payable processes are fully implemented.

- WESD has developed a process for the Business Services Director to review and approve journal entries before they are posted into the accounting system. However, we identified journal entries that were posted without evidence of review. As a result, some of these journal entries included errors that were not identified.

WESD Response:

Journal entries are reviewed and approved by the Director of Business Services.

- WESD has documented responsibilities of Business Service employees in a matrix to ensure proper segregation of duties, and backup personnel have been assigned to critical job functions. However, in reviewing cash handling duties, it came to our attention that they were not separated from depositing and posting into the accounting system.

WESD Response:

Cash handling duties have been reassigned to assure separation from other related functions. This improvement is fully implemented and the practice instituted during the Secretary of State's engagement.

WESD has not developed a policy or procedure to determine what level of system access is appropriate for a given user, grant access, and periodically review user lists and access levels for appropriateness. As a result, some employees had the ability to view, change, and delete personnel and payroll information, such as attendance, pay rates, deductions and leave balances for themselves and others. These employees also had the ability to purge the pay rate history or clear the payroll activity file so that changes could go undetected.

Recommendations to the New WESD Superintendent and Management

	<p><i>WESD Response:</i></p>	<p><i>WESD upgraded its financial software to a version giving greater controls over segregation of duties. The security coordinator has been reassigned to the technology department, completely removing the role from Business Services.</i></p> <p>We found several WESD staff members had “super user” access giving them the ability to grant themselves additional access to other areas of the accounting system. We also found four employees outside the Business Service office with the ability to add a vendor, and review and post journal entries into the accounting system, which means an employee could add a vendor and post payments to that vendor without approval.</p> <p><i>The “super user” security access has been removed from staff assignment, with only the Director of Business Services able to access multiple functions for purpose of review. WESD is committed to sound internal controls and will work with agency auditors to assure the best possible implementation.</i></p>
<ul style="list-style-type: none"> • Ensuring Business Services department and others have the authority to enforce written policies and procedures. 	<p>Fully Implemented</p>	<ul style="list-style-type: none"> • Business Service department staff now has the authority to enforce WESD’s new policies and procedures. For example, we saw evidence of travel reimbursement requests that were over the allowable reimbursement rate and were questioned by Business Service staff. The questioned overages were later repaid by staff. <p><i>Active oversight of written policies and procedures, coupled with enforcement authority, has been fully implemented and assures compliances with critical business practice guidelines.</i></p>
<ul style="list-style-type: none"> • Improve communications with WESD employees and respond in a timely way to issues and concerns they raise. 	<p>Partially Implemented</p>	<ul style="list-style-type: none"> • Staff we interviewed indicated they feel that WESD is on the right track and appreciate the new Superintendent’s regular communication through weekly updates and attendance at various meetings. Staff also feels as though the new Superintendent and program directors are responsive to issues and concerns staff raise and now have an open-door policy. However, some WESD staff we interviewed expressed

Recommendations to the New WESD Superintendent and Management

concern that some supervisors are resistant to change. Other staff indicated that they have not expressed their concerns because they fear that doing so would be viewed negatively by their supervisors.

WESD Response:

Communication is a core value for the WESD Board and Superintendent. This value will continue to be emphasized and practiced in all activities of the agency. Staff are encouraged to make suggestions and raise concerns through various avenues including an anonymous online suggestion box. This input and information is extremely valuable and has resulted in improved practice and financial savings. WESD will continue to actively seek and share information.

Audit Recommendations to the Oregon Superintendent of Public Instruction	Status of Recommendation	Additional Comments
<p>Identify and promote best practices among ESDs on the use and reporting of services, costs, and public resources with the purpose of increasing accountability and transparency.</p>	<p>Partially Implemented</p> <p><i>ODE Response:</i></p>	<ul style="list-style-type: none"> In 2010, ODE sent a survey to the other 19 ESDs requesting they report on whether the issues we identified in the WESD audit were a problem for them. For those issues that were, the survey asked what the specific issue was and what proposed solutions had been identified. If the issue was not a problem, they survey asked why it was not a problem. ODE compiled the self-reported information from the survey and titled it "best practices." <p>One example best practice states, "Eight ESDs report stable assets and financial positions" and "Eleven ESDs report erosion in their financial position due to the poor economy, decline in state funding and increased payroll costs. They also report legislative opposition to growing fund balances".</p> <p>No other best practices were identified, including best practices unrelated to problems we identified in our audit. Other than compiling the survey results, ODE had taken no further action as of the date we began our follow up.</p> <p><i>The summary documents referred to above have been prepared to serve as a benchmark in work the Department has started with ESDs to build a collaborative professional learning community for building and sharing best practices in ESD business and service delivery functions.</i></p>

Willamette

EDUCATION SERVICE DISTRICT

Pat Evenson-Brady, Ph.D., Superintendent

Dave Novotney, Ph.D., Deputy Superintendent

Dixon Bledsoe • Phil Frey • Ken Hector • Frank W. Pender, Jr. • Alex A. Sanchez • Jack Stoops • Larry Trott • Mark Trumbo • Anne Wylie
BOARD OF DIRECTORS

April 28, 2011

Gary Blackmer, Director
Secretary of State, Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Dear Director Blackmer:

We have reviewed the report from the Secretary of State's Audits Division concerning Willamette Education Service District (WESD). The report focused on our progress in addressing recommendations made by your auditors in their previous review of WESD in January of 2010. We accept the report, and pledge to continue our agency's dedication and commitment toward improvement. We are a better agency because of the involvement of your auditors.

We strive to provide quality services to the students, families, schools and districts we serve. With the help of your audit team during this and its previous visit, we have been able to strengthen WESD. Our business practices are improved and we are better stewards of the resources we manage. We are also continuing to improve our transparency and increase the trust we receive from our component school districts. These are important gains and solidify WESD's role in the education community.

Your audit team has been professional and collaborative. We have found the interactions to be fair and open; some improvements that they identified during the 2011 audit review were implemented immediately. Even if these improvements could not be credited in this report, they will be sustained and evident to internal and external reviews in the future.

WESD is proud of the improvements made and committed to sustain them. We recognize where work remains and commit to its completion. If WESD can assist in efforts to effect system improvements, we will gladly participate. We strongly believe in the importance of the role we play in contributing to the education of the area's students. Thank you for your support and assistance in improving WESD.

Our response to your report is attached. If you have questions or comments, please feel free to contact us.

Sincerely,

Pat Evenson-Brady, Ph.D.
Superintendent
Willamette Education Service District

Larry Trott
Chair, Board of Directors
Willamette Education Service District

Willamette Education Service District

Response to Secretary of State: Recommendations Follow-up

April 27, 2011

Willamette Education Service District (WESD) is pleased to accept the Recommendations Follow-up report from the Secretary of State Audit Division. WESD invited the Secretary of State's audit team to return, as did the Oregon Legislature and Oregon Department of Education, to provide an objective review of progress on the recommendations conveyed in January of 2010. Their report is an important step in our agency's continuous improvement process. We are a better agency because of the involvement of the Secretary of State's Audit Division. We welcome their findings.

WESD COMPLETED IMPROVEMENTS

WESD is proud of the work of our staff and new management team in addressing the recommendations from the Secretary of State provided in the 2010 audit. Progress has been substantial on every recommendation, and many have been assessed as "Fully Implemented" by the Secretary of State audit team. In particular, the recommendations focused on improving Board leadership have been comprehensively addressed.

Establishing transparency and open communications with our component school districts is a top priority for WESD. The Secretary of State audit team's comments about improvements in transparency regarding our use of public resources affirm that priority. We have established clear separation of funds dedicated to service provision for our component school districts. This improved fund structure provides financial information specific to each school district, and clearly documents that WESD has expended the required 90% of the State School Fund and local revenues on services and programs. Further, a committee of component district superintendents has participated in reviewing the cost basis for each rate in the Local Service Plan so that districts fully understand the resulting rates.

WESD has also made significant improvements in our business practices. We have strengthened internal controls. We have also simplified and improved business processes and documentation. To support these and future improvements, we have fully implemented appropriate authority for our Business Services staff to enforce these new policies and procedures.

These and other improvements in business practice were affirmed in our 2009-10 annual independent fiscal audit report. The WESD earned the highest possible rating, marking a dramatic improvement from previous years.

WESD CONTINUED IMPROVEMENT

Some recommendations from the January 2010 audit have yet to be fully implemented. WESD takes full responsibility for areas where continued effort is required. In some cases improvements and processes are in place, but could not be completed prior to the audit team's return. The Secretary of State's report acknowledges that it was just not feasible to complete some of the changes in the time since their last report. Other recommendations require additional work before they can be assessed as fully implemented.

The WESD Board of Directors and the WESD Leadership Team have reviewed the report and accept the challenge of completing the remaining activities. WESD has already developed an action plan to address remaining improvements and track those processes still underway. -Our agency goal is to not only address identified items, but establish sustainable change. Each and every recommendation will be fully implemented in a manner that will create lasting improvement.

SUMMARY

WESD has made significant progress and is committed to continued improvement. We recognize that the problems identified in our business practices and agency culture created distress and diminished the trust in WESD from our stakeholders. Our goal is an agency culture of transparency, open communication and responsiveness to our component districts and education partners. WESD provides invaluable services to some of our districts' most needy students. We value and honor our role in the education community.

We are grateful to the Secretary of State audit team for their thorough and thoughtful work. Their observations and recommendations will be taken seriously and WESD will work toward full implementation. We will provide regular, quarterly reports of our progress on the action plan in the public forum of our WESD Board meetings. Our progress will be communicated to the Secretary of State, our education partners, WESD staff and the public.

****Note**** WESD's responses to comments from the Secretary of State audit team are included in the table that is part of their report.

SUSAN CASTILLO

State Superintendent of Public Instruction



OREGON DEPARTMENT OF EDUCATION

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Sherrone Blasi
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Salem, OR 97310

Dear Ms. Blasi:

The Oregon Department of Education acknowledges the Secretary of State Audits Division draft report regarding the follow-up actions taken as a result of the Willamette Education Service District audit. The past two years have presented unprecedented financial challenges at every level in Oregon's education system. With the suspension of the District Best Business Practices Audit Committee and other administrative reductions in the 2009-11 budget along with continuing financial uncertainty, unfortunately, our capacity was impaired to identify and promote best practices among ESDs. As noted in the report, ODE has summarized the self-review documents that were done by each ESD and is now scheduled to discuss in more detail the perspectives reflected in these documents at the next Oregon Association of Education Service Districts (OAESD) Governance Council meeting.

The Department is working with the OAESD to develop a professional learning community that will collaboratively identify best practices in the many business functions and services that are delivered by ESDs across the state. Our plan is to build on the initiatives already underway in the metropolitan area and in the High Desert service area where merged services and provider choice options are being forged. The Department also supports current legislative efforts to restore capacity for the oversight function that is proposed in the B-Engrossed version of Senate Bill 250.

ODE will continue to work with both ESDs and school districts to facilitate the exchange of effective business and instructional practices that deliver value to students.

Sincerely,

A handwritten signature in black ink that reads "Ed Dennis". The signature is fluid and cursive.

Ed Dennis
Deputy Superintendent of Public Instruction

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Audit Team

Deputy Director William K Garber, MPA, CGFM

Audit Manager James E Scott, MM

Principal Auditor Sheronne Blasi, MPA

Principal Auditor Jamie Ralls, CFE

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

The courtesies and cooperation extended by officials and employees of the Willamette Education Service District and the Oregon Department of Education during the course of this follow-up audit were commendable and sincerely appreciated.