

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

**Shelton School District No. 309
Mason County
September 1, 2015 through August 31, 2016**

2016-001 **The District lacked adequate internal controls to ensure compliance with requirements regarding time-and-effort, procurement, and suspension and debarment for costs charged to its Special Education grant program.**

CFDA Number and Title:	84.027 Special Education Grants to States 84.173 Special Education Preschool Grants
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	305528, 363519, 337830
Questioned Cost Amount:	NA

Description of Condition

During fiscal year 2016, the District spent \$847,263 in Special Education grant funds. The objective of the program is to ensure that all children with disabilities receive special education and related services to meet their needs.

Time-and-effort documentation

We audited the District’s internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by time-and-effort documentation as required by OSPI. Time-and-effort documentation can consist of a semi-annual certification or a monthly personnel activity report, such as a timesheet, depending on the employee’s number and type of activities worked.

The District lacked adequate internal controls to ensure salaries and benefits charged to the federal Special Education grants were supported by adequate time-and-effort documentation.

Procurement

The District must use a competitive process to procure federally-funded goods and services to ensure it receives the best price. Price or rate quotes from an adequate number of qualified sources must be obtained for personal services costing less than \$150,000.

The District lacked adequate internal controls to ensure personal services were competitively procured.

Suspension and Debarment

Federal requirements prohibit grant recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The District must verify that all contractors receiving \$25,000 or more and all sub-awards have not been suspended or debarred. This verification may be accomplished by collecting a written certification from the party, or adding a clause or condition into the contract. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet one of these requirements before entering into contracts with contractors or sub-recipients.

The District did not have internal controls in place to ensure contractors were not suspended or debarred from participating in federal programs before entering into contract.

We consider these deficiencies in internal control to be material weaknesses. These issues were not reported as findings in the prior audit.

Cause of Condition

Employees responsible for ensuring compliance with requirements regarding time-and-effort, procurement for professional service contracts, and suspension and debarment for the Special Education grant program were not aware of the requirements.

Effect of Condition and Questioned Costs

Time-and-Effort Documentation

We selected 19 employees charged to the Special Education program for testing and identified the following instances of non-compliance as a result of the identified material weakness:

- The District did not have OSPI's approval to use a substitute time-and-effort system. Four employees' time-and-effort documentation was inadequate due to use of the unapproved time-and-effort system. However, the District provided adequate alternative forms of documentation that demonstrated the costs were allowable, and we will not question these costs.
- We identified two employees with no time-and-effort support. However, the District provided adequate alternative forms of documentation that demonstrated the costs were allowable, and we will not question these costs.
- Four employees worked in classrooms consisting mostly of basic education students. This resulted in \$24,194 in questioned costs.

Procurement

The District did not competitively procure personal services for three contracts totaling \$108,493 and, therefore, could not ensure they received the best possible price for these services.

Because the services purchased were allowable under the federal program, we are not questioning costs.

Suspension and Debarment

The District did not ensure two contractors were not suspended or debarred before entering into contract. Without proper controls, the District increases the risk of awarding grant funds to contractors and sub-recipients that are excluded from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We confirmed the contractors were not suspended or debarred; therefore, we are not questioning costs.

Recommendation

We recommend the District improve internal controls to ensure:

- Staff responsible for ensuring compliance with federal requirements receive appropriate training
- Proper approval is obtained from OSPI before using a substitute time-and-effort system
- Adequate time-and-effort documentation is obtained for all employees charging salaries and benefits to federal programs
- Consultation with OSPI regarding repayment, if any, of questioned cost amounts
- Compliance with competitive procurement requirements to ensure the District receives the best price
- Verification that all contractors receiving \$25,000 or more and all subawardees are not excluded from doing business with the federal government

District's Response

Time and Effort:

The District has implemented a system of reconciliation and analysis of all time and effort documentation on a quarterly basis to ensure staff is working in classrooms and with children that is consistent with the individual's funding. Documents are reviewed monthly and will be analyzed quarterly to demonstrate adequate and correct documentation for time and effort. Discrepancies, if any, will be addressed quarterly at the time of analyzation.

- *Staff coding is reviewed monthly to determine which staff require time and effort documentation. Codes are reviewed by the Special Services Compliance and Fiscal Coordinator and the District Payroll office.*
- *Information from the monthly staff coding review is disseminated to the building Principal and building Secretary informing them of staff members needing to submit time and effort documents.*
- *Expanded timecards from employees requiring time and effort documentation are completed at the building level, submitted to payroll, and reviewed monthly by the Special Services Compliance and Fiscal Coordinator for accuracy.*

- *100 % verification forms for staff members working on single cost objectives are created, signed, and verified semiannually.*
- *Reconciliation between payroll and work schedule of employees requiring monthly time and effort is completed quarterly. Any adjustments to schedule or payroll identified through this process are addressed and corrected immediately, through payroll changes made through the Business Office or schedule changes made at the building level.*

Procurement:

The district has reviewed the procurement process and has implemented a system that ensures they will receive the best possible price for services. Sole source vendors will be documented and documentation of competitive procurement process has been addressed and corrected.

- *Procurement policies were reviewed.*
- *Documentation of sole source providers will be kept in a file with the contract and purchase order of such providers.*
- *The district will collect quotes for all non-sole source providers and will review for best price and available services.*

Suspension and Debarment:

The district has reviewed the suspension and debarment process and has implemented a system using the EPLS system to ensure contractors have not been excluded from participating in federal programs. Process has been addressed and corrected.

- *Before entering contractual agreements, the district will use the EPLS system to ensure that contractors have not been excluded from participating in federal programs.*
- *A printout from the EPLS system is printed and signed by the Director of Special Education and attached to the contract paperwork.*
- *After the EPLS has been verified, a contract is signed by the District Superintendent.*
- *After contract completion, a purchase order is processed for agreed upon service.*

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement and working to improve its internal controls and ensure compliance.

We also wish to thank District management and staff for their cooperation and assistance throughout our audit. We look forward to working with the District on this issue and will review the District's corrective action during our next audit.

Applicable Laws and Regulations

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost 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 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

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.

Office of Superintendent of Public Instruction Bulletin 051-11, Attachment A, Standards for Charging Employee Compensation to Federal Grants, establishes time-and-effort documentation requirements for school districts.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 318-320, outlines federal procurement requirements.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension*, section 220, Are any procurement contracts included as covered transactions?, defines covered transactions.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension*, section 300, What must I do before I enter into a covered transactions with another person at the next lower tier?, outlines suspension and debarment requirements and methods of ensuring compliance.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

**Shelton School District No. 309
Mason County
September 1, 2015 through August 31, 2016**

2016-002 The District did not have adequate internal controls to ensure compliance with time-and-effort, eligibility and 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:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	201972, 222507
Questioned Cost Amount:	NA

Description of Condition

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 low-income families. During fiscal year 2016, the District spent \$1,015,645 in Title I program funds.

Federal regulations require federal-money recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the District’s internal controls were not adequate to ensure compliance with requirements for reporting time-and-effort and graduation data.

Time-and-effort documentation

We audited the District’s internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by time-and-effort documentation as required by OSPI. Time-and-effort documentation can consist of a semi-annual certification or a monthly personnel activity report, such as a timesheet, depending on the employee’s number and type of activities worked.

The District lacked adequate internal controls to ensure salaries and benefits charged to the federal Title I program were supported by adequate time-and-effort documentation. We found the District used an alternative time-and-effort system without OSPI's approval.

Eligibility – Allocation of Title I funds

Federal regulations require the District to allocate Title I grant funds to each attendance area or school in rank order based on the total number of children from low-income families residing in the area or attending the school. The District may not allocate a higher amount per low-income child to areas or schools with lower percentages of poverty than areas or schools with higher poverty percentages. Areas or schools with a poverty rate above 75 percent must be served first and receive a higher allocation of grant funds per low-income child than areas or schools below 75 percent.

The District was unable to demonstrate the allocation of grant funds complied with these regulations. The District chose to allocate funds based on grade span grouping. Although, the elementary school grouping received more funding as a whole compared to the middle school grouping, one elementary school with a poverty rate of 91 percent, received less funding per low-income child than the middle school.

Graduation rate reporting

Districts must report graduation-rate data for all public high schools to OSPI annually. Among other purposes, this information is used to determine if the District has met adequate yearly progress requirements for Title I funding. The District reports this information in a Graduation Rate Report that indicates the student's enrollment status: graduated, transferred out, dropped out, migrated to another country or deceased. The District must retain adequate support for each student's reported status and for changes to a student's status. Students identified on the report as transferred are excluded from that District's graduation rate. To confirm that a student transferred out, the District must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

We found the District did not adequately design or follow controls to ensure compliance with the Title I graduation reporting requirements. Specifically, the District incorrectly reported foreign exchange students as graduated even though a high school diploma was not earned, and it did not have official written documentation to support all reports of students transferred out of the District.

We consider these control deficiencies to be material weaknesses. These issues were not reported as findings in the prior audit.

Cause of Condition

Time-and-effort documentation

Employees responsible for ensuring compliance with requirements regarding time-and-effort documentation for the Title I program were not aware of the requirements.

Eligibility – Allocation of Title I funds

Due to turnover, the District was unable to provide documentation or an explanation to support why the school with a poverty rate above 75 percent was not served first.

Graduation rate reporting

District staff were not aware of the correct reporting for foreign exchange students or the requirement to obtain and retain written documentation for students transferring to another district.

Effect of Condition and Questioned Costs

Time-and-effort documentation

We selected 23 employees charged to the Title I program for testing and found the time-and-effort documentation for six employees was inadequate due to use of the unapproved time-and-effort system. The District did not have OSPI's approval to use a substitute time-and-effort system and was unable to substantiate \$159,051 of payroll costs charged to the Title I program in the manner required by the grantor for the six employees. However, the District provided adequate alternative forms of documentation that demonstrated the costs were allowable; therefore, we do not question these costs.

Eligibility – Allocation of Title I funds

Without adequate internal controls in place to ensure funds are properly allocated based on poverty rate, the type and nature of services provided at schools with higher percentages of poverty may be unfairly limited. We determined the middle school received about \$80,900 in funding that should have been allocated to other schools during the 2015-2016 school year.

Graduation rate reporting

The District incorrectly reported seven foreign exchange students as graduated even though they did not meet graduation requirements. Additionally, the District did not retain official written documentation to support the transfer status for three of 33 students tested. We projected the error rate to all students reported as graduated and transferred to total students reported to OSPI, which resulted in a 14 percent projected error rate. Although there are no questioned costs, the District is at risk of misrepresenting graduation rates.

Recommendation

We recommend the District improve internal controls to ensure:

- Staff responsible for ensuring compliance with federal requirements receive appropriate training
- Proper approval is obtained from OSPI before using a substitute time-and-effort system
- Adequate time-and-effort documentation is obtained for all employees charging salaries and benefits to federal programs
- Title I grant funds are properly allocated to school attendance areas or schools in accordance with federal requirements and retain sufficient documentation to support allocation decisions
- Accurate reporting of graduation rate data to OSPI and retention of records to support the data reported

District's Response

Time and Effort:

Shelton School District applied for and received permission on April 10, 2017 to use an alternative time and effort system of reporting. To improve the internal controls and ensure compliance, the District added a new position. The new Special services Compliance and Fiscal Coordinator will oversee the process. Time and effort forms for each employee will be reviewed on a quarterly basis. Any reconciliation needed will occur at the time of the review.

Allocation of Title I funds:

The District has taken corrective action with the 2016-17 to comply with the federal regulations in the allocation of funds to schools based on poverty levels. The 2016-17 and 2017-18 Title I grants approved by OSPI reflects allocation

based on rank order, with the school with the highest poverty receiving the highest per pupil allocation. Evergreen, the school with the highest poverty level, received the most per pupil allocation. In addition, Shelton had a Consolidated Program Review during the 2016-17 school year and was found to be compliant in allocation of funds.

- *The district takes the following steps to ensure the allocations are based on rank order:*
- *The district receives a Title I allocation from OSPI*
- *The district communicates with food services to determine the poverty rate for each school. Any school with a poverty rate over 75% must be funded with Title I funds.*
- *The district reviews the mandated set asides required for the grant and all costs needed to support Title I at the district level.*
- *The mandated set asides are subtracted from the total Title I allocation.*
- *The remaining funds after mandated set asides will be allocated to Title I buildings based on poverty level. The schools are rank ordered based on that poverty level.*
- *The district reviews with the building administrators the poverty level, staffing needs and student achievement to determine the level of funding.*
- *A per pupil cost will be determined with the highest per pupil allocation being given the highest priority school.*
- *The determined funding is allocated to the building.*

Graduation Rate:

In 2014-15, Shelton High School inadvertently reported seven foreign exchange students as graduates. After a meeting with the Shelton High School Principal, Office Manager, Registrar, and Counseling Secretary, we have taken steps to ensure that this does not happen again. For this 14-15 school year, these foreign exchange students were not withdrawn prior to adding a G0 (graduation) code to our graduating students. In the future, the Counseling Secretary will withdraw our Foreign Exchange Students with a T3 code (confirmed transfer out of Washington – as indicated on page 11 of the 2017-18 CEDARS Reporting Guidance manual) prior to coding our graduates. The registrar, who regularly attends workshops at ESD 113, has asked that ESD adds this step to their ‘End of Year Checklist’ for school registrars. In addition, we went back to confirm that

since 2014-15, foreign exchange students have been correctly coded in Skyward. In response to this finding, we have already taken the above steps to be sure that prior years are correct, and knowing the correct procedure, we will follow these steps for our two foreign exchange students for 2017-18 and for our foreign exchange students each year thereafter.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement and working to improve its internal controls and ensure compliance.

We also wish to thank District management and staff for their cooperation and assistance throughout our audit. We look forward to working with the District on this issue and will review the District's corrective action during our next audit.

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Office of Superintendent of Public Instruction Bulletin 051-11, Attachment A, Standards for Charging Employee Compensation to Federal Grants, establishes time-and-effort documentation requirements for school districts.

Title 34, *U.S. Code of Federal Regulations* (CFR) Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, section 19, Other academic indicators, establishes requirements for calculating and reporting graduation rates to the State levels.

Title 34, *U.S. Code of Federal Regulations* (CFR) Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, section 78, Allocation of funds to school attendance areas schools, outlines funding allocation requirements.