

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Steilacoom Historical School District No. 1

Pierce County

September 1, 2013 through August 31, 2014

2014-001 The District did not have adequate internal controls to ensure compliance with federal verification requirements, and paid lunch equity requirements.

CFDA Number and Title:	10.553 School Breakfast Program 10.555 National School Lunch Program
Federal Grantor Name:	U. S. Department of Agriculture
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

The District participates in the National School Lunch and Breakfast programs. It received \$43,539 for the School Breakfast Program and \$326,511 for the National School Lunch Program during the 2013-2014 school year. These programs provide funding for free and reduced-priced meals for low-income students. Families must meet income guidelines to be eligible for these programs which are reviewed during the application process.

Each year, school districts must select a sample of applications and verify that the income reported by each family was correct. The Office of Superintendent of Public Instruction (OSPI) provides instructions to school districts on how to verify program eligibility. If the eligibility verification process is not properly completed, the District could potentially be serving free and reduced-price meals to ineligible children, and therefore misreporting eligibility status results to OSPI.

The interim rule entitled “National School Lunch Program: School Food Service Account Revenue Amendments Related to the Healthy, Hunger-Free Kids Act of 2010” requires districts to ensure sufficient funds are provided to the nonprofit school food service accounts for meals served to students not eligible for free or reduced-price meals (paid lunches). A district currently charging less for a paid

lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. The difference is known as “equity”.

Description of Condition

Verification of Free and Reduced Price Applications

The District was required to verify three applications for program eligibility. During our review of the District’s verified free and reduced-price meal applications, we noted one application's income exceeded the threshold for participation in the program, causing the family to be improperly classified as eligible to receive free meals.

While the District does have a process in place to perform the verification process, internal controls are not effective to ensure the eligibility status of the applicants is correct. We consider this control deficiency to be a material weakness.

Paid Lunch Equity

The district contracts for a food services director. The food services director is responsible for the Paid Lunch Equity (PLE) calculation using the excel tool provided by OSPI. Our audit found errors in the data that is required to be input into the tool. These data entry errors caused the calculation to indicate that the District did not need to raise its lunch rates, which if the correct numbers would have been input, they would have.

We noted that independent of this process, the District had decided to raise its lunch prices.

The District did not have a review process in place to ensure the tool was completed accurately. Because the District did raise its lunch prices, this reduces the magnitude of the potential noncompliance, therefore, we consider this control deficiency to be a significant deficiency.

Cause of Condition

Income Verification

The reviewer of the applications was not aware that the Basic Housing Allowance, allotted to military members, was a valid income source that should be included in the determination for free and reduced meals.

Paid Lunch Equity

The contractor did not input the correct data into the PLE tool and the District did not review the PLE tool to ensure the data input into the calculation was accurate.

Effect of Condition and Questioned Costs

Income Verification

A lack of proper internal controls over the verification process increases the risk that free or reduced-priced meals could be provided to children who were not eligible to receive them.

Paid Lunch Equity

Without adequate controls in place, there is an increased likelihood that material noncompliance could occur with regard to charging the correct lunch rates without being detected and corrected timely by the District.

Recommendation

Income verification

We recommend the District gain an understanding of allowable and unallowable income sources for free and reduced meal applications and implement a secondary review over the selected applications for review.

Paid lunch equity

We recommend the District develop internal controls over the PLE process, such as implementing a review of the PLE tool calculation, to ensure the District prevents, detects and corrects errors in the calculation timely.

District's Response

The district concurs that exceptions were identified in testing the 2013-2014 Child Nutrition Program but are not a material weakness or significant deficiencies as stated by the auditor. The auditor's testing of Child Nutrition applications found no material issues and found no issues with the district raising lunch prices for the 2013-2014 school year. The following is a response to each of the two areas identified in the auditor's finding:

Income Verification - *The district had already implemented a secondary review procedure for all Child Nutrition applications for the 2014-2015 school year. The second review was requested by OSPI based on their 2013-2014 review of the program in February 2014.*

OSPI reviewed the required three applications and identified one application error where the basic housing allowance was not included in determining income eligibility. This is the same error reported in the auditor's finding.

Paid Lunch Equity - *The finding identified a minor issue in the Paid Lunch Equity calculation. In August 2013, a previous contracted Food Service Director inserted an incorrect lunch meal price of \$2.40 rather than \$2.50 in the equity calculation spreadsheet. The error was not identified by the district but the district's independent financial analysis and discussion with the previous contracted Food Service Director identified the need to increase lunch meal prices. This increase was to maintain a district breakeven point for the Child Nutrition program, in compliance with federal child nutrition requirements and received OSPI approval prior to the School Board approval in August 2013.*

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or

grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively. ...

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur. ...

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in

internal control over compliance, yet important enough to merit attention by those charged with governance.

7 CFR §245.6 Application, eligibility and certification of children for free and reduced price meals and free milk, states in part:

(c) *Determination of eligibility*— (1) *Duration of eligibility*. Except as otherwise specified in paragraph (c)(3) of this section, eligibility for free or reduced price meals, as determined through an approved application or by direct certification, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year.

(4) *Calculating income*. The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable.

Washington State Office of the Superintendent of Public Instruction CNR Update, *Paid Lunch Equity School Year 2013-14* states, in part:

The United States Department of Agriculture (USDA) has released the Paid Lunch Equity (PLE) Tool for school year 2013-14 and additional guidance in USDA Memorandum SP 25-2013.

All local education agencies (LEA) are required to calculate their weighted average paid lunch price using the PLE Tool. If the weighted average paid lunch price is greater than \$2.59, no further action is required. All LEAs must keep a copy of the tool, showing the calculations, either electronic or paper, on file. Ensuring that all LEAs have made this calculation will be part of future administrative reviews.