

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Educational Service District No. 113 Thurston County September 1, 2013 through August 31, 2014

2014-001 Educational Service District No. 113 did not comply with federal requirements for its Head Start grant program.

CFDA Number and Title:	93.600 Head Start
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	10CH0150-18
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$10,388

Description of Condition

During fiscal year 2014, the District spent \$5,369,852 in Head Start program funds. The objective of the Head Start program is to provide early education programming to low-income children and those eligible for public assistance to promote school readiness. The grant period for Head Start runs from November 1 to October 31, and there are no carryover provisions.

We audited to ensure compliance with requirements governing the allowable use of funding and period of availability. While the District does have a review process, our audit found this process was not effective in identifying costs that were not eligible to be charged to the grant or to ensure that costs were charged to the correct grant period.

Cause of Condition

The District has a new employee who is responsible for entering invoices into the accounting software. Although the District has a review process in place after invoices have been entered, it is not effective in detecting unallowable activities that were charged to the grant, nor is it effective to ensure that invoices were charged to the correct grant period.

Effect of Condition and Questioned Costs

Without adequate controls and review processes in place, clerical errors occurred that resulted in costs being improperly charged to the grant and also costs charged to the incorrect grant period.

Our audit identified costs improperly charged to the grant totaling \$6,017. We further noted that \$4,371 in costs were charged to the incorrect grant period.

Recommendation

We recommend the District establish and follow internal controls to ensure compliance with federal requirements, to include:

- Dedicating resources to provide training to employees to ensure only allowable costs are charged to the grant and costs are charged to the correct grant period.
- Ensuring effective monitoring procedures are in place to detect transactions that are unallowable or outside of the period of availability.

We further recommend the District consult with the granting agency about repayment of questioned costs.

District's Response

The ESD takes proper accounting for our programs seriously. The cause of this condition was based upon a change in the existing personnel assigned to this task. We failed to perform comprehensive job training and supervision that would have detected these clerical errors earlier. Upon notification of the initial audit sample results, we immediately mobilized our efforts to perform a complete 100% review of the 4,856 accounts payable transactions for entry errors. This process involved three staff and over 200 hours of time. We appreciate the Auditors willingness to use the results of this work in their valuation of the error.

We further reviewed our current practices and have made process improvements as follows:

- 1. Additional training with a focus on how system defaults for purchase order transactions can create unintended errors.*
- 2. Instituted job expectations of a regular self-review of the transactional entries by the AP staff.*
- 3. Established routine supervisory reviews of transactions performed on a sample basis.*

4. *Increased the program staff awareness of the importance of reviewing the transaction recaps for expenditure coding within their programs.*

The ESD wishes to extend our thanks to the State Auditor's Office for delaying the close out of their work to allow us time to perform our own complete audit of the problem area. This time has further allowed us to focus on the issue and thoughtfully develop process improvements for this area.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement.

We also wish to thank District management for their cooperation and assistance during our audit. We look forward to working with the District on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

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.

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 – Auditee Responsibilities, 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.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Attachment A – *General Principles for Determining Allowable Costs*, states in part:

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.