

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Ferndale School District No. 502 Whatcom County September 1, 2014 through August 31, 2015

2015-001 Ferndale School District does not have adequate internal controls over its federal child nutrition verification process, resulting in inaccurate selection of student records to verify.

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

Background

The District participates in the School Breakfast and National School Lunch programs. It received \$1,012,635 during fiscal year 2015. This program provides funding for free and reduced-price meals for low-income students. Families must meet income guidelines to be eligible for these programs.

Description of Condition

Each year, districts must select a sample of applications and verify that family income information reported to the District is correct. The Office of Superintendent of Public Instruction (OSPI) provides instructions to school districts on how to verify program eligibility.

Our audit of the verification requirement found the District did not use the sampling method prescribed by OSPI. The District was required to use a three percent focused sampling method; however, the District used the three percent random selection method, which results in a different sample.

The District failed to recognize the 2013-2014 school year nonresponse rate required a different sampling method than they had used in the past.

We consider this control deficiency to be a material weakness.

Cause of Condition

The District did not adequately review the guidance provided by OSPI stating the specific verification method required. In addition, the District did not dedicate the resources necessary to provide adequate oversight to ensure compliance with federal requirements.

Effect of Condition and Questioned Costs

A lack of proper internal controls over the verification process increases the risk that free or reduced-price meals could be provided to children who were not eligible to receive them. In addition, this could affect the District's eligibility for future federal funding.

Recommendation

We recommend the District establish internal controls to ensure it follows the required sampling method for income verification.

District's Response

The Ferndale School District acknowledges that sufficient internal controls were not in place to ensure the proper sampling method was used when it performed the verification of program eligibility for the federal Child Nutrition program for fiscal year 2015.

Corrective actions taken on this issue will include providing additional training and guidance to the staff responsible for performing verification. We will also perform a detailed multi-level review of the verification process to ensure the proper sampling method, prescribed by OSPI, is used when performing our verification process.

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 taken during our next regular 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 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.

Washington Office of Superintendent of Public Instruction (OSPI) prescribes the Income Verification of Free and Reduced Price Meal Applications as follows:

Verification Sample Method

LEAs with a verification non-response rate of 20% or greater must use the 3 % Focused Sampling method (Tool 3).

Title 7 Code of Federal Regulations, Section §245.6a - Verification requirements, states in part:

(c) *Verification requirement*—(1) *General.* The local educational agency must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year.

(i) A State may, with the written approval of FNS, assume responsibility for complying with the verification requirements of this section on behalf of its local educational agencies. When assuming such responsibility, States may qualify, if approved by FNS, to use one of the alternative sample sizes provided for in paragraph (c)(4) of this section if qualified under paragraph (d) of this section.

(ii) An application must be approved if it contains the essential documentation specified in the definition of *Documentation* in §245.2 and, if applicable, the household meets the income eligibility criteria for free or reduced price benefits. Verification efforts must not delay the approval of applications.

(3) *Standard sample size.* Unless eligible for an alternative sample size under paragraph (d) of this section, the sample size for each local educational agency shall equal the lesser of:

(i) Three (3) percent of all applications approved by the local educational agency for the school year, as of October 1 of the school year, selected from error prone applications; or

(ii) 3,000 error prone applications approved by the local educational agency for the school year, as of October 1 of the school year.

(iii) Local educational agencies shall not exceed the standard sample size in paragraphs (c)(3)(i) or (c)(3)(ii) of this section, as applicable, and, unless eligible for one of the alternative sample sizes provided in paragraph (c)(4) of this section, the local educational agency shall not use a smaller sample size than those in paragraphs (c)(3)(i) or (c)(3)(ii) of this section, as applicable.

(iv) If the number of error-prone applications exceeds the required sample size, the local educational agency shall select the required sample at random, i.e., each application has an equal chance of being selected, from the total number of error-prone applications.

(4) *Alternative sample sizes.* If eligible under paragraph (d) of this section for an alternative sample size, the local educational agency may use one of the following alternative sample sizes:

(i) *Alternative One.* The sample size shall equal the lesser of:

(A) 3,000 of all applications selected at random from applications approved by the local educational agency as of October 1 of the school year; or

(B) Three (3) percent of all applications selected at random from applications approved by the local educational agency as of October 1 of the school year.

(ii) *Alternative Two*. The sample size shall equal the lesser of the sum of:

(A) 1,000 of all applications approved by the local educational agency as of October 1 of the school year, selected from error prone applications or

(B) One (1) percent of all applications approved by the local educational agency as of October 1 of the school year, selected from error prone applications PLUS

(C) The lesser of:

(1) 500 applications approved by the local educational agency as of October 1 of the school year that provide a case number in lieu of income information showing participation in an eligible program as defined in paragraph (a)(1) of this section; or

(2) One-half ($\frac{1}{2}$) of one (1) percent of applications approved by the local educational agency as of October 1 of the school year that provide a case number in lieu of income information showing participation in an eligible program as defined in paragraph (a)(1) of this section.

(5) *Completing the sample size*. When there are an insufficient number of error prone applications or applications with case number to meet the sample sizes provided for in paragraphs (c)(3) or (c)(4) of this section, the local educational agency shall select, at random, additional approved applications to comply with the specified sample size requirements.

(6) *Local conditions.* In the case of natural disaster, civil disorder, strike or other local conditions as determined by FNS, FNS may substitute alternatives for the sample size and sample selection criteria in paragraphs (c)(3) and (c)(4) of this section.

(7) *Verification for cause.* In addition to the required verification sample, local educational agencies must verify any questionable application and should, on a case-by-case basis, verify any application for cause such as an application on which a household reports zero income or when the local educational agency is aware of additional income or persons in the household. Any application verified for cause is not considered part of the required sample size. If the local educational agency verifies a household's application for cause, all verification procedures in this section must be followed.

(d) *Eligibility for alternative sample sizes—*(1) *State agency oversight.* At a minimum, the State agency shall establish a procedure for local educational agencies to designate use of an alternative sample size and may set a deadline for such notification. The State agency may also establish criteria for reviewing and approving the use of an alternative sample size, including deadlines for submissions.

(2) *Lowered non-response rate.* Any local educational agency is eligible to use one of the alternative sample sizes in paragraph (c)(4) of this section for any school year when the non-response rate for the preceding school year is less than twenty percent.

(3) *Improved non-response rate.* A local educational agency with more than 20,000 children approved by application as eligible for free or reduced price meals as of October 1 of the school year is eligible to use one of the alternative sample sizes in paragraph (c)(4) of this section for any school year when the non-response rate for the preceding school year is at least ten percent below the non-response rate for the second preceding school year.

(4) *Continuing eligibility for alternative sample sizes.* The local educational agency must annually determine if it is eligible to use one of the alternative sample sizes provided in paragraph (c)(4) of this section. If qualified, the local educational agency shall contact the State agency in accordance with procedures established by the State agency under paragraph (d)(1) of this section.