

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

**Seattle School District No. 1
King County
September 1, 2015 through August 31, 2016**

2016-001 The District did not have adequate internal controls to ensure compliance with procurement requirements for its School Improvement Grant.

CFDA Number and Title:	84.377 – School Improvement Grants
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	GR0225361
Questioned Cost Amount:	\$0

Description of Condition

The District spent \$1,155,391 in its School Improvement Grant in the 2015-2016 school year. This grant is designed to provide funding to local education agencies that demonstrate the greatest needs for the funds and the strongest commitment to ensure the funds are used to substantially raise student achievement in the persistently lowest-achieving schools in the state.

The District is required to use a competitive process to procure personal services to ensure it receives the best price from the lowest responsible bidder. During this process, the District can declare a contractor as the sole source of supply if required conditions are met. If the sole-source exception to competition is used, the District must keep documentation of how it arrived at this decision before ratifying the contract.

The District paid two contractors for three contracts totaling \$157,000 to provide tutoring services and staffing to provide academic support for student development. The District did not follow proper procedures to procure the services as federal regulations require, and did not maintain adequate documentation to demonstrate these services were only available through a single source.

We consider this control deficiency to be a material weakness. This issue was not reported as a finding in the prior audit.

Cause of Condition

Staff at the school building level procured personal service contracts that were paid for with federal funds. The District did not provide training or guidance to staff about federal procurement requirements. Also, the District did not monitor procurement procedures at the school building level to ensure compliance with federal requirements.

Effect of Condition and Questioned Costs

The District cannot ensure it received the best possible price for the services provided. The purchase is allowable under the federal program; therefore, we are not questioning costs.

Recommendation

We recommend the District establish and follow internal controls to ensure the District:

- Retains sufficient documentation to demonstrate compliance with federal procurement requirements, including sole-source exceptions, for services.
- Monitors services procured at the building level are to ensure compliance with federal requirements.
- Provides adequate training and guidance to grant staff about federal requirements.

District's Response

The District concurs with this finding. The District recently updated procedures, including documentation requirements for sole-source vendors. Increased monitoring activities were implemented during the 2016-17 school year and procurement training has been created for staff.

Auditor's Remarks

We thank the District for its assistance during the audit and will follow up on corrective actions taken during the next audit.

Applicable Laws and Regulations

Title 2 Code of Federal Regulations, Section § 200.303 – Internal controls, states in part:

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in, “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

Title 2 Code of Federal Regulations, Section 200.516 – Audit findings, states in part:

- (a) Audit findings reported. The auditor must report the following as audit findings in a schedule of findings and questioned costs:
 - (1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness, for the purpose of reporting an audit finding, is in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.
 - (2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of Federal statutes, regulations, or

the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement

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:

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 an event occurring 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.

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 that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Material noncompliance. In the absence of a definition of material noncompliance in the governmental audit requirement, a failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program.

Title 2 Code of Federal Regulations, Section § 200.318 – General procurement standards, states in part:

(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Title 2 Code of Federal Regulations, Section § 200.319 – Competition, states in part:

(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section.

Title 2 Code of Federal Regulations, Section § 200.320 – Methods of procurement to be followed, states in part:

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

(f) Procurement by noncompetitive proposals. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:

- (1) The item is available only from a single source;
- (2) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;

- (3) The Federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity; or
- (4) After solicitation of a number of sources, competition is determined inadequate.

Seattle School District Policy – Superintendent Procedure 6220SP.D, Cross Reference: 6220

C. Competitive Process for Contracts under \$25,000:

1. The department manager or school principal shall obtain such competition as appropriate under the circumstances, although competition is not required under \$25,000, except for contracts funded by federal grant funds. For contracts funded by federal grant funds, the initiator must either conduct a competition or provide sole source documentation.

E. Competitive Process for Services Contracts above \$50,000:

1. Advertisements. Procurement shall use the combination of advertising in the Daily Journal of Commerce or other newspapers, letters to vendors, and notices in other locations which it believes will assure the most competitive selection. The initiator shall be responsible for advertising costs.
2. Competitive Bids, RFPs, and RFQs. Procurement, in consultation with the Initiator, shall choose from the following methods to select a contractor, using the method deemed most likely to produce a competitive selection in a timely manner. Procurement may utilize any of the following competitive processes, as appropriate:
 - d) Sole Source Items: Justification Required. Competition is not required for contracts for unique items, or sole source services (services for which it is not practicable to obtain competition, or the services of a specific individual who has specialized skills or

where time limitations make it impractical to obtain competition).