

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

**Mary Walker School District No. 207  
Stevens County  
September 1, 2015 through August 31, 2016**

**2016-001    The District did not have adequate internal controls to ensure compliance with federal verification requirements.**

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

***Description of Condition***

The District participates in the National School Lunch and School Breakfast programs, which provide funding for free and reduced-priced meals for low-income students. It received \$407,390 during fiscal year 2016. Families must meet income guidelines to be eligible for these programs.

During fiscal year 2016, the state determined that charter schools were not public entities and therefore were ineligible to receive public funds. However, the schools were still allowed to operate and the Office of Superintendent of Public Instruction (OSPI) approved the charter schools to partner with school districts that were eligible to receive state and federal funds. The District was involved in this unique, one-time funding situation and partnered with six charter schools in Washington to provide nutrition services to low-income students during the schools' first year of operation. Because of this relationship, the District was responsible for the charter schools' compliance with federal program requirements.

Each year, districts must select a sample of applications and verify that family income information reported to them is correct. OSPI provides instructions to school districts on how to verify program eligibility, including the number of applications that must be verified based on a district's non-response rate from the previous year's verification. The verification process must be completed by November 15 each year.

We selected one charter school for testing and found that while the District had a process in place to perform the verification of applications, internal controls were not effective to ensure that the District performed the verification steps accurately. The District was required to use a 3 percent focused sampling method to verify applications for program eligibility. This method required the District to select its sample from the "error prone" applications, which are applications from families within \$1,200 yearly; \$100 monthly; \$50 twice a month; \$46 every two weeks and \$23 weekly of the free and reduced-price eligibility levels. If there are not enough "error prone" applications to meet the sample-size requirement, the District must randomly select additional applications from both income and case number applications until the required sample size is reached.

Based on the sampling method used, the District was required to verify two applications; however, it verified four applications. OSPI and U.S. Department of Agriculture (USDA) guidance require that school districts must not verify more or fewer applications than the standard sample size, because it may affect the non-response rate for the District in future years.

We consider this internal control deficiency to be a material weakness.

This issue was not reported as a finding in the prior audit.

### ***Cause of Condition***

Fiscal year 2016 was the first time the charter school received federal nutrition program funding. The charter school employee responsible for completing the verification process was not familiar with the verification requirements and did not review the OSPI and USDA guidance to ensure the process was completed correctly. Further, the District did not understand its relationship with the charter school and did not monitor the charter school's verification process to ensure it complied with federal requirements.

### ***Effect of Condition and Questioned Costs***

The District's selection of more applications than were called for by the sampling method used could affect the District's non-response rate and the sampling method required in future years.

## ***Recommendation***

We recommend the District train employees responsible for the verification process and improve its internal controls to ensure the verification process is performed correctly

## ***District's's Response***

*In a September 4, 2015 ruling, the Washington State Supreme Court declared the initiative that established charter schools to be unconstitutional and therefore Charter schools were not public entities and ineligible to receive public funds. Memorandum No. 072-15M was issued by OSPI to provide guidance for the transition of Charter school students to Alternative Learning Experience (ALE) students. The District was presented with a one-time opportunity to work with the OSPI to enroll these students in as Alternate Learning Experience students. The District worked closely with OSPI to enroll students from six of the former Charter schools to ensure the continuity of the students' education. This one-time enrollment and funding opportunity was for the 2015-2016 school year only.*

*Mary Walker School District is a Provision 2 school for the 2015-2016 school year. The Provision 2 status reduces the burden of processing applications and allows schools with high numbers of low-income children to serve meals at no cost. The District has reviewed the verification process for non-Provision 2 schools. If the District no longer qualifies for a program such as Provision 2 or Community Eligibility Provision, the District will review and follow the verification process as outlined by OSPI and USDA. The District will also seek guidance from the OSPI Child Nutrition staff. The issues that were identified in the finding were all related to the Charter school students that were enrolled in the Mary Walker ALE program. As these students will not be enrolled in the 2016-2017 school year, these issues have been resolved.*

## ***Auditor's Remarks***

We appreciate the District's commitment to resolving the issues noted and will follow up during the next audit.

## ***Applicable Laws and Regulations***

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.

*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 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.

Title 7 *U.S. Code of Federal Regulations* (CFR) Part 245, *Determining Eligibility for Free and Reduced Price Meals and Free Milk in Schools*, Section 6a, Verification requirements, establishes requirements for verifying eligibility of children for free and reduced price meal benefits.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Mary Walker School District No. 207  
Stevens County  
September 1, 2015 through August 31, 2016**

**2016-002    The District did not have adequate internal controls in place to ensure compliance with federal student eligibility and assessment system security requirements for its Title I program.**

<b>CFDA Number and Title:</b>	84.010 – Title I, Part A
<b>Federal Grantor Name:</b>	United States Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	0202289
<b>Questioned Cost Amount:</b>	\$30,871

### *Description of Condition*

The District participates in the Title I program, which provides financial assistance to schools to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families. It received \$404,057 in Title I funds for this program in the 2016 fiscal year.

During fiscal year 2016, the state determined that charter schools were not public entities and therefore were ineligible to receive public funds. However, the schools were allowed to operate and the Office of Superintendent of Public Instruction (OSPI) approved the charter schools to partner with school districts that were eligible to receive state and federal funds. The District was involved in this unique, one-time funding situation and partnered with six charter schools in Washington to provide Title I services during the schools' first year of operation. Because of this relationship, the District was responsible for the charter schools' compliance with federal program requirements.

### Assessment system security

States, in consultation with local educational agencies, are required to establish and maintain an assessment system that is valid, reliable and consistent with relevant professional and technical standards. School districts must have policies and procedures to maintain test security and implement test security measures for assessments. OSPI provided school districts with guidance for establishing policies and procedures and standardized forms to use for documenting and reporting compliance with test security plans.

We selected the District and one charter school for testing and found that the District and charter school did not have policies and procedures established to maintain test security for assessments, and that the charter school did not maintain documentation to demonstrate test security measures had been implemented.

We consider this internal control deficiency to be a material weakness.

This issue was not reported as a finding in the prior audit.

### Eligibility of students

Title 1, Part A funds can be used to operate either a “schoolwide program” to upgrade the instructional program in the whole school or a “targeted assistance program” in which the school identifies students who are failing, or most at risk of failing, to meet the state’s student performance standards. From the pool of eligible children, a school operating a targeted assistance program selects those children with the greatest need of special assistance to receive services, such as reading or math. Schools must determine greatest need and document service priority decisions by compiling a rank order list of children to be served. The list is typically compiled by assigning each student a score based on a combination of standardized test scores and teacher recommendations.

We selected one charter school for testing that operated a targeted assistance program during 2016 and found the District did not retain student test scores or the rank order list of children served at the school.

We consider this internal control deficiency to be a material weakness.

This issue was not reported as a finding in the prior audit.

## ***Cause of Condition***

### Assessment system security

Fiscal year 2016 was the first time the charter school received federal Title I funding. The charter school employee responsible for administering assessment

tests at the school was aware of requirements to maintain security over tests and had trained on test security. However, the employee did not complete the OSPI forms because the school was not required to submit the forms to OSPI. Further, the District did not understand its relationship with the charter school and did not monitor the school's implementation of test security measures.

#### Eligibility of students

The charter school maintained its student scores in a reading assessment system and converted to a new student information system in July 2016. Because the student scores and ranking list were not printed, the school was unable to access the data in the old system to demonstrate it properly ranked its students and served students with the greatest need first. Further, the District did not understand its relationship with the charter school and did not monitor the charter school's process to ensure only eligible students were served with Title I funds.

### ***Effect of Condition and Questioned Costs***

#### Assessment system security

Because the charter school did not complete and retain the OSPI forms, it cannot demonstrate test security measures were implemented as required.

#### Eligibility of students

The charter school paid \$30,871 for salaries and benefits of four employees who worked in the Title I program. Because the District cannot demonstrate that students who had the greatest needs were served by the Title I program at the charter school, we are questioning these costs.

### ***Recommendations***

#### Assessment system security

We recommend the District establish and follow policies and procedures to maintain test security and complete the OSPI forms to demonstrate test security measures have been implemented.

#### Eligibility of students

We recommend the District ensure it retains documentation to demonstrate that the Title I program serves the students with the greatest needs.

### ***District's Response***

*In a September 4, 2015 ruling, the Washington State Supreme Court declared the initiative that established charter schools to be unconstitutional and therefore*

*Charter schools were not public entities and ineligible to receive public funds. Memorandum No. 072-15M was issued by OSPI to provide guidance for the transition of Charter school students to Alternative Learning Experience (ALE) students. The District was presented with a one-time opportunity to work with OSPI to enroll these students as Alternate Learning Experience students. The District worked closely with OSPI to enroll students from six of the former Charter schools to ensure the continuity of the students' education. This one-time enrollment and funding opportunity was for the 2015-2016 school year only.*

*The District has a Title I Schoolwide Program in both the K-5 and 6-8 schools. The schoolwide focus is to address the needs of low-achieving students and those at risk of not meeting state student academic achievement standards. The District does not have Title I Targeted Assistance federal compliance requirements due to Title I Schoolwide status. If the District were to implement Targeted Assistance Programs, the District would comply with the eligibility and assessment system security requirements as outlined by OSPI and federal regulations. The issues that were identified in the finding were all related to the charter school students that were enrolled in the Mary Walker ALE program. As these students will not be enrolled in the 2016-2017 school year, these issues have been resolved.*

### ***Auditor's Remarks***

We appreciate the District's commitment to resolving the issues noted and will follow up during the next audit.

### ***Applicable Laws and Regulations***

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.

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 200.516, Audit Findings, establishes reporting requirements for audit findings.

Title 20, U.S. Code section 6311(b)(3)(C)(iii), establishes academic assessment requirements.



Title 20 *U.S. Code* section 6315 – Targeted Assistance Schools, establishes the requirement to provide services to children identified as having the greatest need for special assistance.