

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Morton School District No. 214

Lewis County

September 1, 2013 through August 31, 2014

2014-001 The District did not have adequate internal controls to ensure compliance with federal procurement requirements for its School Improvement Grant.

CFDA Number and Title:	84.377 School Improvement Grant
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	0225332
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2014, the District spent \$387,026 in School Improvement Grant program funds. The objective of this program is to dramatically turn around the academic achievement of students in the Nation's persistently lowest-achieving schools through the successful implementation of school intervention models. Recipients of this grant must have internal controls in place to ensure compliance with federal requirements.

Federal grant regulations require recipients to maintain documentation to sufficiently demonstrate its rationale for the method of procurement used to purchase goods and services. Federal grant recipients are required to obtain price or rate quotations from an adequate number of qualified sources for procurement of services up to \$100,000 and formal bids for contracts exceeding \$100,000. A grantee may solicit services from only one vendor if it determines the services are available from a sole source or if they determine competition is inadequate. Grantees must keep documentation to show how they reached this conclusion.

The District did not have a process in place to ensure compliance with the procurement of professional services. We noted three instances in which the District did not comply with federal procurement requirements. The District contracted with these vendors for services totaling \$20,600.

We consider these control deficiencies to be a significant deficiency.

Cause of Condition

Procurement requirements were brought to the attention of the District in the previous audit. Although the District was working towards compliance, they were unable to fully complete the process in time to comply for purchases made during the 2013-2014 school year.

Effect of Condition and Questioned Costs

The District cannot ensure it received the best possible price for the purchased services. Because the services purchased are allowable under the federal program, we are not questioning these costs.

Recommendation

We recommend the District continues working to establish internal controls that ensure contracts for professional services are procured in accordance with federal requirements.

District's Response

The Morton School District will be writing a procurement policy and procedure for internal use. This will be placed in the administrative and supervisory handbooks that are reviewed and signed off by each staff in charge of expending federal grant dollars.

We hope that this will make those better aware of the procedures that need to take place before placing orders or purchasing services with federal dollars. The district will also not sign off on purchase orders until proper documentation (three bids/quotes from vendors or documentation showing that adequate attempts were made to receive bid/quotes from vendors) has been submitted and reviewed by the business manager.

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

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.

Title 34, Code of Federal Regulations, Section 80.36 – Procurement, states in part:

(b) *Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a 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.

(d) *Methods of procurement to be followed—*(1) *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 fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

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 internal controls over compliance 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 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.