

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

South Bend School District No. 118 Pacific County September 1, 2014 through August 31, 2015

2015-001 The District did not retain documentation to demonstrate its internal controls are adequate to ensure compliance with federal suspension and debarment requirements.

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

Description of Condition

The objectives of the Child Nutrition program is to assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and encourage the domestic consumption of nutritious agricultural commodities. During fiscal year 2015, the District received \$230,037 in Child Nutrition Grant funds. Of this amount, the District paid fifteen vendors \$96,360 in federal grant funds to purchase food products and manage their food service program.

Suspension and Debarment

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred.

To meet this requirement, the vendor or subrecipient can certify in writing that it has not been suspended or debarred or a clause can be added to the contract. Alternatively, the District can check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Service Administration. The District must also inform the primary contractor to check the status of any covered transactions they enter into at the next lower level. The District must meet these requirements prior to entering into contracts with vendors or subrecipients.

The District paid \$25,996 of its grant funding to one food service vendor. The District stated they are aware of the suspension and debarment requirements and checked www.sam.gov; however they did not maintain documentation of the search results verifying the federal suspension and debarment status of this vendor.

We consider this control deficiency to be a material weakness.

Cause of Condition

District staff responsible for this grant did not maintain documentation to demonstrate the District was in compliance with suspension and debarment requirements for federally funded contracts.

Effect of Condition and Questioned Costs

Without proper controls in place to evidence compliance with grant requirements, the District increases the risk of awarding funds to vendors and subrecipients that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Failure to comply with federal requirements may jeopardize the District's eligibility for future federal assistance.

We were able to verify the vendor was not suspended or debarred; therefore, we will not question these costs.

Recommendation

We recommend the District retain documentation, such as printed search results, to demonstrate compliance with federal suspension and debarment requirements.

District's Response

The South Bend School District participates in the School Breakfast and National School Lunch programs for which the District received federal funds for the 2014-2015 school year. These programs provide funding for free and

reduced-priced meals for low-income students. The District contracts with vendors for its food purchases for these programs.

Federal grant guidelines prohibit school districts from contracting with vendors suspended or debarred from doing business with the federal government. Specifically, for vendors paid \$25,000 or more, the District must ensure the vendor is not suspended or debarred. To meet this requirement, the District checks SAM (System for Award Management) to ensure vendors are not suspended or debarred. This District conducts these checks annually for all vendors for which federal funds are used, or when new vendors are considered as potential contractors.

The case related to this finding concerns a food vendor. The food vendor does not exist in the SAM database. Unlike the other vendors the District checked in SAM, the vendor in question had no confirmation result to retain. Other vendors checked by the District did have reports returned by SAM, and the District printed and retained those reports showing the status of suspension and debarment.

The District concurs with SAO that failure to retain proof of a check for suspension and debarment for the vendor in question (or any vendor) does not comply with federal guidelines. To remedy such omissions from occurring in the future, the District will continue the standard practice of confirming suspension/debarment through SAM and retain a copy of the result. In addition, the District will include suspension and debarment language in vendor contracts that will allow vendors to certify they (and their subcontractors) are not suspended or debarred from doing business with the federal government. The vendor contract will be immediately terminated if and when it is determined they are suspended or debarred.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our 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 – 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.

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.

Title 2, Code of Federal Regulations, Section 180.220, states in part, Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a non-procurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed \$25,000 . . .

(c) A subcontract also is a covered transaction if,—

(1) It is awarded by a participant in a procurement transaction under a nonprocurement transaction of a Federal agency that extends the coverage of paragraph (b)(1) of this section to additional tiers of contracts (see the diagram in the appendix to this part showing that optional lower tier coverage); and

(2) The value of the subcontract is expected to equal or exceed \$25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Title 2 Code of Federal Regulations, Section 180.330 – What requirements must I pass down to persons at lower tiers with whom I intend to do business?

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to—

- (a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.
- (b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.