

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Cle Elum-Roslyn School District No. 404 Kittitas County September 1, 2014 through August 31, 2015

2015-001 Cle Elum-Roslyn School District did not have adequate internal controls to ensure compliance with time and effort requirements.

CFDA Number and Title:	84.010 - Title I Grants to Local Education Agencies
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:	02018541
Questioned Cost Amount:	\$18,340

Description of Condition

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of low-income families. In fiscal year 2015, the District received \$247,515 in federal funding through its Title I program. Of this amount, \$229,087 was spent on salaries and benefits.

We reviewed payroll transactions to determine whether salaries and benefits charged to federal grants were supported by adequate time and effort documentation as required by federal regulations. Depending on the number and type of activities an employee works on, documentation can be a semi-annual certification or a monthly personnel activity report, such as a timesheet. The District is also required to review actual costs to budgeted distributions based on monthly activity reports at least quarterly and adjust costs when there are differences of more than ten percent.

Our audit found the District did not design an effective process to monitor and review employees whose positions were funded, in whole or in part, with federal

grant funds to ensure semi-annual certifications or monthly personnel activity reports were completed and were reconciled to the budgeted distributions timely.

The District charged salaries and benefits to the Title I program monthly based on each employee's budgeted allocation. Although employees prepared time and effort monthly, the District compared actual costs to budgeted distributions at the end of the grant year rather than quarterly, as required. Year-end adjustments of approximately \$40,000 were posted to adjust the budgeted allocation to the actual distribution reports. These adjustments were not reviewed by an independent person and did not have adequate support justifying the validity of the transactions. Further, as this reconciliation was performed at year-end, the District did not identify that employees charged to the grant did not have the appropriate time and effort.

In addition, the District did not have a process in place to ensure year-end reimbursement requests were supported by valid fiscal year 2015 expenditures.

We consider these internal control deficiencies to be material weaknesses.

Cause of Condition

The District did not fully understand program requirements over reconciling budgeted costs to actual time and effort on a quarterly basis and recording the appropriate adjustments when differences exceeded ten percent. Also, the District did not dedicate the necessary resources to review year-end transactions and reimbursement requests to ensure they were properly supported and posted.

Effect of Condition and Questioned Costs

Without proper support for transactions, federal grantors cannot be assured expenditures charged to the programs are accurate and valid. The District's noncompliance with grant requirements can jeopardize future federal funding and may require the District to return federal funds to the grantor.

Our audit found the following:

- The District incorrectly paid \$4,392 out of the Title I grant for an employee that did not work in this program. We are questioning these costs.
- Time and effort documentation for one multiple cost objective employee did not agree to the amount charged to the Title I program, resulting in questioned costs of \$13,948.
- The District submitted one reimbursement request for grant number 02018541 at the end of the fiscal year in the amount of \$6,627 for

expenditures that did not occur until the next fiscal year. As these costs were allowable, we are not questioning costs.

In total, we are questioning \$18,340 in federal Title I expenditures.

Similar issues were noted in the prior audit.

Recommendation

We again recommend the District:

- Compare actual costs from the monthly activity reports to budgeted distributions at least quarterly and adjust costs when there are differences of more than ten percent.
- Establish internal controls to ensure all employees working on federal grants submit required certifications and time and effort documentation to support time worked.
- Establish internal controls to ensure adjustments and reimbursement requests are properly supported and approved by an independent person to ensure the validity of the transactions.

District's Response

The District is making improvements and changes in its processes and is designing an effective process to monitor and review employees whose positions are funded, in whole or in part, with federal grant funds. The prior audit took place late in the 2014-15 school year and for this reason, similar documentation errors were noted during the current audit period. District staff has made extensive efforts to remedy our processes during the current 2015-16 fiscal year so as to ensure semi-annual certifications or monthly personnel activity reports will be completed and will be reconciled to the budgeted distributions timely from this time forward. District staff has shared the improvements being made in our documentation processes with audit staff and we are confident that these improvements will ensure compliance with Title I time and effort requirements.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to improvements. We will review the status of this issue 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, 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.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Appendix B, Section 8(h), states:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered

by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.