



District employees did not obtain formal bids for one vendor that was paid \$134,427. In addition, the District did not obtain quotes for items totaling \$32,853 from two vendors.

We consider this deficiency in internal controls to be a significant deficiency. This issue was reported as finding 2015-001 in the prior audit.

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

We issued the previous audit finding in May 2016, after procurement procedures were performed by the District. District staff responsible for procurement procedures during the audit period were not trained during the audit period and did not have a strong understanding of applicable requirements.

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

The District cannot be sure that it received the best possible price for the purchased goods and services. Because the products and services were allowable under the federal program, we are not questioning costs.

### ***Recommendation***

We recommend the District strengthen its internal controls to ensure all purchases paid with federal grants are procured in accordance with federal requirements and retain documentation to demonstrate compliance. Specifically, the District should:

- Estimate the cost of food purchases prior to expending federal funds.
- Formally bid food purchases that are expected to exceed \$75,000 and purchase items from the lowest responsible bidder.
- Obtain price quotations for food purchases that are not expected to exceed \$75,000 and maintain records to demonstrate a competitive process.

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

*The district will provide follow up training on bid and procurement law and district procedures with appropriate staff to ensure compliance. Additionally, detailed procedures will be drafted and reviewed with appropriate staff to ensure compliance with bid and procurement requirements.*

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

We thank the District for its corporation and assistance during the audit. We will review the corrective action 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 Reporting, 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.

Revised Code of Washington 28A.335.190, Advertising for bids – Competitive bid procedures, states in part:

(2) Every purchase of furniture, equipment or supplies, except books, the cost of which is estimated to be in excess of forty thousand dollars, shall be on a competitive basis. The board of directors shall establish a procedure for securing telephone and/or written quotations for such purchases. Whenever the estimated cost is from forty thousand dollars up to seventy-five thousand dollars, the procedure shall require quotations from at

least three different sources to be obtained in writing or by telephone, and recorded for public perusal. Whenever the estimated cost is in excess of seventy-five thousand dollars, the public bidding process provided in subsection (1) of this section shall be followed.

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

**Othello School District No. 147  
Adams County  
September 1, 2015 through August 31, 2016**

**2016-002 The District did not have adequate internal controls to ensure compliance with Federal Title I graduation rate reporting requirements.**

<b>CFDA Number and Title:</b>	84.010 Title I Grants to Local Educational Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	0201925, 0224675, 0263093
<b>Questioned Cost Amount:</b>	\$0

***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. During fiscal year 2016, the District spent \$1,230,378 in Title I program funds.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the District’s internal controls were not adequate to ensure compliance with graduation data reporting requirements.

Districts must report graduation rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. This is done by submitting a Graduation Rate Report that indicates the student’s enrollment status: graduated, transferred out, dropped out, migrated to another country or deceased. The District must retain adequate support for changes to a student’s status. To confirm a student transferred out, the District must have official written

documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

We found the District did not adequately design or follow controls to ensure compliance with the Title I graduation reporting requirements. Specifically, the District did not have official written documentation to support all reports of students transferred out of the District.

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

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

District staff was not aware of the requirement to obtain and retain documentation for students transferring to another district or how long the documentation had to be retained. Also, the District did not have a secondary review of the reports performed to verify accuracy before it submitted them to OSPI.

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

The District is unable to adequately support its reported graduation rate without proper documentation supporting the status of transferred students.

The District did not retain official written documentation for 22 of 32 students tested who were reported to OSPI as transferring to another district. We projected the error rate to all students reported as transferred and to total students reported to OSPI, which resulted in an 8 percent projected error rate. Although there are no questioned costs, the District is at risk of misrepresenting the graduation rates.

### ***Recommendations***

We recommend the District:

- Provide training and guidance to staff to ensure they understand the grant requirements and the Secretary of State records retention policy requirements.
- Establish and follow internal controls to ensure it meets federal requirements for student transfer documentation for graduation reporting.

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

*The high school counseling office has revised their procedures to include a tracking system for students who transfer/withdraw from high school. The procedures include obtaining and retaining records per federal requirements for student transfers for graduation reporting. The high school counseling and*



*building leadership met in April 2017 to develop the internal control procedures; implementation was initiated in April 2017.*

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

We thank the District for its assistance during the audit and acknowledge its commitment to improve conditions described. We will review the status of this issue during the next audit.

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

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Title 34, Code of Federal Regulations, Section 200.34 (note this criteria was previously located at Section 200.19) - High School graduation rate, states in part:

(a) *Four-year adjusted cohort graduation rate.* A State must calculate a four-year adjusted cohort graduation rate for each public high school in the State in the following manner:

(1) The numerator must consist of the sum of -

(i) All students who graduate in four years with a regular high school diploma; and

(ii) All students with the most significant cognitive disabilities in the cohort, assessed using an alternate assessment aligned to alternate academic achievement standards under section 1111(b)(2)(D) of the Act and awarded a State-defined alternate diploma.

(2) The denominator must consist of the number of students who form the adjusted cohort of entering first-time students in grade 9 enrolled in the high school no later than the date by which student membership data is collected annually by the State for submission to the National Center for Education Statistics.

(3) For those high schools that start after grade 9, the cohort must be calculated based on the earliest high school grade students attend.

(b) *Adjusting the cohort.*

(1) “Adjusted cohort” means the students who enter grade 9 (or the earliest high school grade) plus any students who transfer into the cohort in grades 9 through 12, and minus any students removed from the cohort.

(2) “Students who transfer into the cohort” means the students who enroll after the beginning of the date of the determination of the cohort, up to and including in grade 12.

(3) To remove a student from the cohort, a school or LEA must confirm in writing that the student -

(i) Transferred out, such that the school or LEA has official written documentation that the student enrolled in another school or educational program from which the student is expected to receive a regular high school diploma, or a State-defined alternate diploma for students with the most significant cognitive disabilities;

(ii) Emigrated to another country;

(iii) Transferred to a prison or juvenile facility after an adjudication of delinquency, and is enrolled in an educational program from which the student is expected to receive a regular high school diploma, or a State-defined alternate diploma for students with the most significant cognitive disabilities, during the period in which the student is assigned to the prison or juvenile facility; or

(iv) Is deceased.

(4) A student who is retained in grade, enrolls in a general equivalency diploma program or other alternative education program that does not issue or provide credit toward the issuance of a regular high school diploma or a State-defined alternate diploma, or leaves school for any reason other than those described in paragraph (b)(3) of this section may not be counted as having transferred out for the purpose of calculating the graduation rate and must remain in the adjusted cohort.

(5) For students with the most significant cognitive disabilities assessed using an alternate assessment aligned to alternate academic achievement standards under section 1111(b)(2)(D) of the Act and who are eligible for a State-defined alternate diploma under § 200.34(c)(3), an LEA or school must -

(i) Assign the student to the cohort of entering first-time students in grade 9 and ensure that the student remains in that cohort through grade 12.

(ii) Remove such a student from the original cohort if the student does not graduate after four years but continues to be enrolled in the school or LEA and is expected to receive a State-defined alternate diploma that meets the requirements of paragraph (c)(3) of this section;

(iii) Reassign such a student who graduates with a State-defined alternate diploma after more than four years to the cohort of students graduating in that year and include the student in the numerator and denominator of the graduation rate calculation -

(A) For the four-year adjusted cohort graduation rate for the year in which the student graduates; and

(B) For an extended-year adjusted cohort graduation rate under paragraph (d) of this section for one or more subsequent years, if the State has adopted such a rate.

(iv) Reassign such a student who after more than four years does not graduate with a State-defined alternate diploma that meets the requirements of paragraph (c)(3) of this section to the cohort of students graduating in the year in which the student exits high school and include the student in the denominator of the graduation rate calculation -

(A) For the four-year adjusted cohort graduation rate for the year in which the student exits high school; and

(B) For an extended-year adjusted cohort graduation rate under paragraph (d) of this section for one or more subsequent years, if the State has adopted such a rate.

(c) *Definition of terms.* For the purposes of calculating an adjusted cohort graduation rate under this section -

(1) “Students who graduate in four years” means students who earn a regular high school diploma before, during, or at the conclusion of their fourth year, or during a summer session immediately following their fourth year.

(2) “Regular high school diploma” means the standard high school diploma awarded to the preponderance of students in the State that is fully aligned with State standards, or a higher diploma. A regular high school diploma does not include -

(i) A diploma aligned to the alternate academic achievement standards described in section 1111(b)(1)(E) of the ESEA, as amended by the ESSA; or

(ii) A general equivalency diploma, certificate of completion, certificate of attendance, or any similar or lesser credential, such as a diploma based on meeting individualized education program (IEP) goals.

(3) “Alternate diploma” means a diploma for students with the most significant cognitive disabilities, as defined by the State, who are assessed with a State's alternate assessments aligned to alternate academic achievement standards under section 1111(b)(2)(D) of the Act and is -

(i) Standards-based;

(ii) Aligned with the State's requirements for a regular high school diploma; and

(iii) Obtained within the time period for which the State ensures the availability of a free appropriate public education under section 612(a)(1) of the Individuals with Disabilities Education Act ( 20 U.S.C. 1412(a)(1)).