



Office of the Washington State Auditor
Pat McCarthy

Federal Single Audit Report

Shelton School District No. 309

Mason County

For the period September 1, 2015 through August 31, 2016

Published December 21, 2017

Report No. 1020276





Office of the Washington State Auditor
Pat McCarthy

December 21, 2017

Board of Directors
Shelton School District No. 309
Shelton, Washington

Report on Federal Single Audit

Please find attached our report on Shelton School District No. 309's compliance with requirements applicable to each of its major federal programs in accordance with Title 2 *U.S Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

We are issuing this report in order to provide information on specific financial activities of the District.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Schedule Of Findings And Questioned Costs.....	4
Schedule Of Federal Award Findings And Questioned Costs.....	6
Independent Auditor’s Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With The Uniform Guidance	18
Corrective Action Plan For Findings Reported Under Uniform Guidance	22
About The State Auditor’s Office.....	26

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Shelton School District No. 309
Mason County
September 1, 2015 through August 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Shelton School District No. 309 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Schedule of Expenditures of Federal Awards

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an unmodified opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP). Our opinion on the District’s financial statements is provided in a separate report, which includes the District’s financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
84.010	Title I Grants to Local Educational Agencies
84.027	Special Education Cluster – Grants to States
84.173	Special Education Cluster – Preschool Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See findings 2016-001 and 2016-002.

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

**Shelton School District No. 309
Mason County
September 1, 2015 through August 31, 2016**

2016-001 **The District lacked adequate internal controls to ensure compliance with requirements regarding time-and-effort, procurement, and suspension and debarment for costs charged to its Special Education grant program.**

CFDA Number and Title:	84.027 Special Education Grants to States 84.173 Special Education Preschool Grants
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	305528, 363519, 337830
Questioned Cost Amount:	NA

Description of Condition

During fiscal year 2016, the District spent \$847,263 in Special Education grant funds. The objective of the program is to ensure that all children with disabilities receive special education and related services to meet their needs.

Time-and-effort documentation

We audited the District’s internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by time-and-effort documentation as required by OSPI. Time-and-effort documentation can consist of a semi-annual certification or a monthly personnel activity report, such as a timesheet, depending on the employee’s number and type of activities worked.

The District lacked adequate internal controls to ensure salaries and benefits charged to the federal Special Education grants were supported by adequate time-and-effort documentation.

Procurement

The District must use a competitive process to procure federally-funded goods and services to ensure it receives the best price. Price or rate quotes from an adequate number of qualified sources must be obtained for personal services costing less than \$150,000.

The District lacked adequate internal controls to ensure personal services were competitively procured.

Suspension and Debarment

Federal requirements prohibit grant recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The District must verify that all contractors receiving \$25,000 or more and all sub-awards have not been suspended or debarred. This verification may be accomplished by collecting a written certification from the party, or adding a clause or condition into the contract. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet one of these requirements before entering into contracts with contractors or sub-recipients.

The District did not have internal controls in place to ensure contractors were not suspended or debarred from participating in federal programs before entering into contract.

We consider these deficiencies in internal control to be material weaknesses. These issues were not reported as findings in the prior audit.

Cause of Condition

Employees responsible for ensuring compliance with requirements regarding time-and-effort, procurement for professional service contracts, and suspension and debarment for the Special Education grant program were not aware of the requirements.

Effect of Condition and Questioned Costs

Time-and-Effort Documentation

We selected 19 employees charged to the Special Education program for testing and identified the following instances of non-compliance as a result of the identified material weakness:

- The District did not have OSPI's approval to use a substitute time-and-effort system. Four employees' time-and-effort documentation was inadequate due to use of the unapproved time-and-effort system. However, the District provided adequate alternative forms of documentation that demonstrated the costs were allowable, and we will not question these costs.
- We identified two employees with no time-and-effort support. However, the District provided adequate alternative forms of documentation that demonstrated the costs were allowable, and we will not question these costs.
- Four employees worked in classrooms consisting mostly of basic education students. This resulted in \$24,194 in questioned costs.

Procurement

The District did not competitively procure personal services for three contracts totaling \$108,493 and, therefore, could not ensure they received the best possible price for these services.

Because the services purchased were allowable under the federal program, we are not questioning costs.

Suspension and Debarment

The District did not ensure two contractors were not suspended or debarred before entering into contract. Without proper controls, the District increases the risk of awarding grant funds to contractors and sub-recipients that are excluded from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We confirmed the contractors were not suspended or debarred; therefore, we are not questioning costs.

Recommendation

We recommend the District improve internal controls to ensure:

- Staff responsible for ensuring compliance with federal requirements receive appropriate training
- Proper approval is obtained from OSPI before using a substitute time-and-effort system
- Adequate time-and-effort documentation is obtained for all employees charging salaries and benefits to federal programs
- Consultation with OSPI regarding repayment, if any, of questioned cost amounts
- Compliance with competitive procurement requirements to ensure the District receives the best price
- Verification that all contractors receiving \$25,000 or more and all subawardees are not excluded from doing business with the federal government

District's Response

Time and Effort:

The District has implemented a system of reconciliation and analysis of all time and effort documentation on a quarterly basis to ensure staff is working in classrooms and with children that is consistent with the individual's funding. Documents are reviewed monthly and will be analyzed quarterly to demonstrate adequate and correct documentation for time and effort. Discrepancies, if any, will be addressed quarterly at the time of analysis.

- *Staff coding is reviewed monthly to determine which staff require time and effort documentation. Codes are reviewed by the Special Services Compliance and Fiscal Coordinator and the District Payroll office.*
- *Information from the monthly staff coding review is disseminated to the building Principal and building Secretary informing them of staff members needing to submit time and effort documents.*
- *Expanded timecards from employees requiring time and effort documentation are completed at the building level, submitted to payroll, and reviewed monthly by the Special Services Compliance and Fiscal Coordinator for accuracy.*

- *100 % verification forms for staff members working on single cost objectives are created, signed, and verified semiannually.*
- *Reconciliation between payroll and work schedule of employees requiring monthly time and effort is completed quarterly. Any adjustments to schedule or payroll identified through this process are addressed and corrected immediately, through payroll changes made through the Business Office or schedule changes made at the building level.*

Procurement:

The district has reviewed the procurement process and has implemented a system that ensures they will receive the best possible price for services. Sole source vendors will be documented and documentation of competitive procurement process has been addressed and corrected.

- *Procurement policies were reviewed.*
- *Documentation of sole source providers will be kept in a file with the contract and purchase order of such providers.*
- *The district will collect quotes for all non-sole source providers and will review for best price and available services.*

Suspension and Debarment:

The district has reviewed the suspension and debarment process and has implemented a system using the EPLS system to ensure contractors have not been excluded from participating in federal programs. Process has been addressed and corrected.

- *Before entering contractual agreements, the district will use the EPLS system to ensure that contractors have not been excluded from participating in federal programs.*
- *A printout from the EPLS system is printed and signed by the Director of Special Education and attached to the contract paperwork.*
- *After the EPLS has been verified, a contract is signed by the District Superintendent.*
- *After contract completion, a purchase order is processed for agreed upon service.*

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement and working to improve its internal controls and ensure compliance.

We also wish to thank District management and staff for their cooperation and assistance throughout our audit. We look forward to working with the District on this issue and will review the District's corrective action during our next audit.

Applicable Laws and Regulations

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 516, Audit findings, establishes reporting requirements for audit findings.

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.

Office of Superintendent of Public Instruction Bulletin 051-11, Attachment A, Standards for Charging Employee Compensation to Federal Grants, establishes time-and-effort documentation requirements for school districts.

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 318-320, outlines federal procurement requirements.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension*, section 220, Are any procurement contracts included as covered transactions?, defines covered transactions.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension*, section 300, What must I do before I enter into a covered transactions with another person at the next lower tier?, outlines suspension and debarment requirements and methods of ensuring compliance.

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

**Shelton School District No. 309
Mason County
September 1, 2015 through August 31, 2016**

2016-002 The District did not have adequate internal controls to ensure compliance with time-and-effort, eligibility and graduation rate reporting requirements.

CFDA Number and Title:	84.010, Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	201972, 222507
Questioned Cost Amount:	NA

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 \$1,015,645 in Title I program funds.

Federal regulations require federal-money recipients 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 requirements for reporting time-and-effort and graduation data.

Time-and-effort documentation

We audited the District’s internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by time-and-effort documentation as required by OSPI. Time-and-effort documentation can consist of a semi-annual certification or a monthly personnel activity report, such as a timesheet, depending on the employee’s number and type of activities worked.

The District lacked adequate internal controls to ensure salaries and benefits charged to the federal Title I program were supported by adequate time-and-effort documentation. We found the District used an alternative time-and-effort system without OSPI's approval.

Eligibility – Allocation of Title I funds

Federal regulations require the District to allocate Title I grant funds to each attendance area or school in rank order based on the total number of children from low-income families residing in the area or attending the school. The District may not allocate a higher amount per low-income child to areas or schools with lower percentages of poverty than areas or schools with higher poverty percentages. Areas or schools with a poverty rate above 75 percent must be served first and receive a higher allocation of grant funds per low-income child than areas or schools below 75 percent.

The District was unable to demonstrate the allocation of grant funds complied with these regulations. The District chose to allocate funds based on grade span grouping. Although, the elementary school grouping received more funding as a whole compared to the middle school grouping, one elementary school with a poverty rate of 91 percent, received less funding per low-income child than the middle school.

Graduation rate reporting

Districts must report graduation-rate data for all public high schools to OSPI annually. Among other purposes, this information is used to determine if the District has met adequate yearly progress requirements for Title I funding. The District reports this information in 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 each student's reported status and for changes to a student's status. Students identified on the report as transferred are excluded from that District's graduation rate. To confirm that 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 incorrectly reported foreign exchange students as graduated even though a high school diploma was not earned, and it did not have official written documentation to support all reports of students transferred out of the District.

We consider these control deficiencies to be material weaknesses. These issues were not reported as findings in the prior audit.

Cause of Condition

Time-and-effort documentation

Employees responsible for ensuring compliance with requirements regarding time-and-effort documentation for the Title I program were not aware of the requirements.

Eligibility – Allocation of Title I funds

Due to turnover, the District was unable to provide documentation or an explanation to support why the school with a poverty rate above 75 percent was not served first.

Graduation rate reporting

District staff were not aware of the correct reporting for foreign exchange students or the requirement to obtain and retain written documentation for students transferring to another district.

Effect of Condition and Questioned Costs

Time-and-effort documentation

We selected 23 employees charged to the Title I program for testing and found the time-and-effort documentation for six employees was inadequate due to use of the unapproved time-and-effort system. The District did not have OSPI's approval to use a substitute time-and-effort system and was unable to substantiate \$159,051 of payroll costs charged to the Title I program in the manner required by the grantor for the six employees. However, the District provided adequate alternative forms of documentation that demonstrated the costs were allowable; therefore, we do not question these costs.

Eligibility – Allocation of Title I funds

Without adequate internal controls in place to ensure funds are properly allocated based on poverty rate, the type and nature of services provided at schools with higher percentages of poverty may be unfairly limited. We determined the middle school received about \$80,900 in funding that should have been allocated to other schools during the 2015-2016 school year.

Graduation rate reporting

The District incorrectly reported seven foreign exchange students as graduated even though they did not meet graduation requirements. Additionally, the District did not retain official written documentation to support the transfer status for three of 33 students tested. We projected the error rate to all students reported as graduated and transferred to total students reported to OSPI, which resulted in a 14 percent projected error rate. Although there are no questioned costs, the District is at risk of misrepresenting graduation rates.

Recommendation

We recommend the District improve internal controls to ensure:

- Staff responsible for ensuring compliance with federal requirements receive appropriate training
- Proper approval is obtained from OSPI before using a substitute time-and-effort system
- Adequate time-and-effort documentation is obtained for all employees charging salaries and benefits to federal programs
- Title I grant funds are properly allocated to school attendance areas or schools in accordance with federal requirements and retain sufficient documentation to support allocation decisions
- Accurate reporting of graduation rate data to OSPI and retention of records to support the data reported

District's Response

Time and Effort:

Shelton School District applied for and received permission on April 10, 2017 to use an alternative time and effort system of reporting. To improve the internal controls and ensure compliance, the District added a new position. The new Special services Compliance and Fiscal Coordinator will oversee the process. Time and effort forms for each employee will be reviewed on a quarterly basis. Any reconciliation needed will occur at the time of the review.

Allocation of Title I funds:

The District has taken corrective action with the 2016-17 to comply with the federal regulations in the allocation of funds to schools based on poverty levels. The 2016-17 and 2017-18 Title I grants approved by OSPI reflects allocation

based on rank order, with the school with the highest poverty receiving the highest per pupil allocation. Evergreen, the school with the highest poverty level, received the most per pupil allocation. In addition, Shelton had a Consolidated Program Review during the 2016-17 school year and was found to be compliant in allocation of funds.

- *The district takes the following steps to ensure the allocations are based on rank order:*
- *The district receives a Title I allocation from OSPI*
- *The district communicates with food services to determine the poverty rate for each school. Any school with a poverty rate over 75% must be funded with Title I funds.*
- *The district reviews the mandated set asides required for the grant and all costs needed to support Title I at the district level.*
- *The mandated set asides are subtracted from the total Title I allocation.*
- *The remaining funds after mandated set asides will be allocated to Title I buildings based on poverty level. The schools are rank ordered based on that poverty level.*
- *The district reviews with the building administrators the poverty level, staffing needs and student achievement to determine the level of funding.*
- *A per pupil cost will be determined with the highest per pupil allocation being given the highest priority school.*
- *The determined funding is allocated to the building.*

Graduation Rate:

In 2014-15, Shelton High School inadvertently reported seven foreign exchange students as graduates. After a meeting with the Shelton High School Principal, Office Manager, Registrar, and Counseling Secretary, we have taken steps to ensure that this does not happen again. For this 14-15 school year, these foreign exchange students were not withdrawn prior to adding a G0 (graduation) code to our graduating students. In the future, the Counseling Secretary will withdraw our Foreign Exchange Students with a T3 code (confirmed transfer out of Washington – as indicated on page 11 of the 2017-18 CEDARS Reporting Guidance manual) prior to coding our graduates. The registrar, who regularly attends workshops at ESD 113, has asked that ESD adds this step to their ‘End of Year Checklist’ for school registrars. In addition, we went back to confirm that

since 2014-15, foreign exchange students have been correctly coded in Skyward. In response to this finding, we have already taken the above steps to be sure that prior years are correct, and knowing the correct procedure, we will follow these steps for our two foreign exchange students for 2017-18 and for our foreign exchange students each year thereafter.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement and working to improve its internal controls and ensure compliance.

We also wish to thank District management and staff for their cooperation and assistance throughout our audit. We look forward to working with the District on this issue and will review the District's corrective action during our next audit.

Applicable Laws and Regulations

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 516, Audit findings, establishes reporting requirements for audit findings.

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.

Office of Superintendent of Public Instruction Bulletin 051-11, Attachment A, Standards for Charging Employee Compensation to Federal Grants, establishes time-and-effort documentation requirements for school districts.

Title 34, *U.S. Code of Federal Regulations* (CFR) Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, section 19, Other academic indicators, establishes requirements for calculating and reporting graduation rates to the State levels.

Title 34, *U.S. Code of Federal Regulations* (CFR) Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, section 78, Allocation of funds to school attendance areas schools, outlines funding allocation requirements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Shelton School District No. 309
Mason County
September 1, 2015 through August 31, 2016**

Board of Directors
Shelton School District No. 309
Shelton, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Shelton School District No. 309, Mason County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the

Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's 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 with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-001 and 2016-002 to be material weaknesses.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

December 12, 2017

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER UNIFORM GUIDANCE**

**Shelton School District No. 309
Mason County
September 1, 2015 through August 31, 2016**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the Shelton School District No. 309.

<p>Finding ref number: 2016-001</p>	<p>Finding caption: The District lacked adequate internal controls to ensure compliance with requirements regarding time-and-effort, procurement, and suspension and debarment for costs charged to its Special Education grant program.</p>
<p>Name, address, and telephone of auditee contact person: Brenda Trogstad 700 South 1st Street Shelton, WA 98584 (360) 426-1687</p>	
<p>Corrective action the auditee plans to take in response to the finding: <u>Time and Effort:</u> <i>The District has implemented a system of reconciliation and analysis of all time and effort documentation on a quarterly basis to ensure staff is working in classrooms and with children that is consistent with the individual's funding. Documents are reviewed monthly and will be analyzed quarterly to demonstrate adequate and correct documentation for time and effort. Discrepancies, if any, will be addressed quarterly at the time of analyzation.</i></p> <ul style="list-style-type: none"> • <i>Staff coding is reviewed monthly to determine which staff require time and effort documentation. Codes are reviewed by the Special Services Compliance and Fiscal Coordinator and the District Payroll office.</i> • <i>Information from the monthly staff coding review is disseminated to the building Principal and building Secretary informing them of staff members needing to submit time and effort documents.</i> • <i>Expanded timecards from employees requiring time and effort documentation are completed at the building level, submitted to payroll, and reviewed monthly by the Special Services Compliance and Fiscal Coordinator for accuracy.</i> 	

- *100% verification forms for staff members working on single cost objectives are created, signed, and verified semiannually.*
- *Reconciliation between payroll and work schedule of employees requiring monthly time and effort is completed quarterly. Any adjustments to schedule or payroll identified through this process are addressed and corrected immediately, through payroll changes made through the Business Office or schedule changes made at the building level.*

Procurement:

The district has reviewed the procurement process and has implemented a system that ensures they will receive the best possible price for services. Sole source vendors will be documented and documentation of competitive procurement process has been addressed and corrected.

- *Procurement policies were reviewed.*
- *Documentation of sole source providers will be kept in a file with the contract and purchase order of such providers.*
- *The district will collect quotes for all non-sole source providers and will review for best price and available services.*

Suspension and Debarment:

The district has reviewed the suspension and debarment process and has implemented a system using the EPLS system to ensure contractors have not been excluded from participating in federal programs. Process has been addressed and corrected.

- *Before entering contractual agreements, the district will use the EPLS system to ensure that contractors have not been excluded from participating in federal programs.*
- *A printout from the EPLS system is printed and signed by the Director of Special Education and attached to the contract paperwork.*
- *After the EPLS has been verified, a contract is signed by the District Superintendent.*
- *After contract completion, a purchase order is processed for agreed upon service.*

Anticipated date to complete the corrective action:

The District has implemented the corrective action as stated above.

Finding ref number: 2016-002	Finding caption: The District did not have adequate internal controls to ensure compliance with time-and-effort, eligibility and graduation rate reporting requirements.
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Name, address, and telephone of auditee contact person:
 Brenda Trogstad
 700 South 1st Street
 Shelton, WA 98584
 (360)426-1687

Corrective action the auditee plans to take in response to the finding:

Time and Effort:
Shelton School District applied for and received permission on April 10, 2017 to use an alternative time and effort system of reporting. To improve the internal controls and ensure compliance, the District added a new position. The new Special services Compliance and Fiscal Coordinator will oversee the process. Time and effort forms for each employee will be reviewed on a quarterly basis. Any reconciliation needed will occur at the time of the review.

Allocation of Title I funds:
The District has taken corrective action with the 2016-17 to comply with the federal regulations in the allocation of funds to schools based on poverty levels. The 2016-17 and 2017-18 Title I grants approved by OSPI reflects allocation based on rank order, with the school with the highest poverty receiving the highest per pupil allocation. Evergreen, the school with the highest poverty level, received the most per pupil allocation. In addition, Shelton had a Consolidated Program Review during the 2016-17 school year and was found to be compliant in allocation of funds.

- *The district takes the following steps to ensure the allocations are based on rank order:*
- *The district receives a Title I allocation from OSPI*
- *The district communicates with food services to determine the poverty rate for each school. Any school with a poverty rate over 75% must be funded with Title I funds.*
- *The district reviews the mandated set asides required for the grant and all costs needed to support Title I at the district level.*
- *The mandated set asides are subtracted from the total Title I allocation.*
- *The remaining funds after mandated set asides will be allocated to Title I buildings based on poverty level. The schools are rank ordered based on that poverty level.*
- *The district reviews with the building administrators the poverty level, staffing needs and student achievement to determine the level of funding.*
- *A per pupil cost will be determined with the highest per pupil allocation being given the highest priority school.*
- *The determined funding is allocated to the building.*

Graduation Rate:

In 2014-15, Shelton High School inadvertently reported seven foreign exchange students as graduates. After a meeting with the Shelton High School Principal, Office Manager, Registrar, and Counseling Secretary, we have taken steps to ensure that this does not happen again. For this 14-15 school year, these foreign exchange students were not withdrawn prior to adding a G0 (graduation) code to our graduating students. In the future, the Counseling Secretary will withdraw our Foreign Exchange Students with a T3 code (confirmed transfer out of Washington – as indicated on page 11 of the 2017-18 CEDARS Reporting Guidance manual) prior to coding our graduates. The registrar, who regularly attends workshops at ESD 113, has asked that ESD adds this step to their 'End of Year Checklist' for school registrars. In addition, we went back to confirm that since 2014-15, foreign exchange students have been correctly coded in Skyward. In response to this finding, we have already taken the above steps to be sure that prior years are correct, and knowing the correct procedure, we will follow these steps for our two foreign exchange students for 2017-18 and for our foreign exchange students each year thereafter.

Anticipated date to complete the corrective action:

The District has implemented the corrective action as stated above.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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