

Easton School District No. 28

G.3.PRG - Purchase Cards

Procedure Step: Tests of Credit Cards, Fuel Cards, Charge Accounts

Prepared By: SHE, 3/5/2024

Reviewed By: RKM, 3/11/2024

Purpose/Conclusion:

Purpose:

To determine propriety of procurement/credit card and procurement account charges.

Conclusion:

We were unable to determine the propriety of many credit card charges due to the lack over oversight, accountability and the lack of supporting documentation. See our recommendations at [[V- Records Retention](#)] and [[V- Lack of Oversight and Accountability](#)].

We are further analyzing transactions in our fraud audit at [03Easton-FD21].

Testing Strategy:

Analytical Procedures

The following are analytical procedures to **consider**:

- Compare or trend activity levels by card, month and/or user
- Check for missing statements
- Check for unreported cards by reconciling credit card payments per statements to payments made per the AP system
- Scan statements for risk indicators or policy violations, such as:
 - Purchases of a type or amount that is prohibited by policy; splitting purchases to circumvent transaction limits is a fairly common problem in credit card programs
 - Purchases with high dollar amounts or that exceed bid thresholds
 - Purchases for meals or travel-related purposes, especially when the entity also utilizes travel cards or travel reimbursements/travel advances. The risk is that employee is reimbursed for payments already charged to the card
 - Purchases normally handled through the P.O. process, especially for small and attractive assets, and/or where the same item was

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- purchased in other months. The risk is that approval or asset tracking controls are circumvented or misappropriation is occurring
- Cash advances (prohibited by state law)
- Purchases that have the potential to be for a personal purpose (ie: consumer goods, personal services, local restaurants, etc)
- Purchases made during non-working hours or days
- Purchases of fuel
- Additional considerations for fuel cards include:
 - If the entity utilizes mileages logs, verify accuracy of mileage log entries by comparing vehicle's odometer to the latest mileage log entry. Another option is to inquire how the entity checks it, such as reviewing maintenance records that show the odometer when the vehicle was last serviced.
 - Compare the number of gallons purchased to the vehicle's tank capacity for variances (purchases should not exceed capacity)
 - Compare the type of fuel purchased to that used by the vehicle (i.e. gas purchased when the vehicle uses diesel)
 - Compare entity-calculated mpg to national averages (<http://www.fueleconomy.gov/feg/advancedSearch.htm> contains a searchable listing of vehicle's average mpg as posted by the US Department of Energy, Energy Efficiency, and Renewable Energy). Consider significant variances for additional review
 - Compare fill up times to timesheets or work schedules for instances of charges made during non-working hours or days
 - Scan fuel purchases for multiple purchases made in a single day. Compare the frequency and volume to vehicle mileage information
- Review to ensure statements were reviewed and approved by user prior to payment

Testing Selected Charges

Consider testing selected charges for the following attributes (modify the test attributes based on identified risks):

- Charge is supported by adequate documentation to evidence validity of transaction
- Charge is approved in accordance with entity policy
- Charge is allowable under state law and entity policy (state law prohibits cash advances or personal use - even if later reimbursed).
 - If travel related, ensure the charge was not also reimbursed directly to the employee (compare the employee's charge card billings to travel reimbursement vouchers to ensure double billings are not present)
- For travel, ensure that within 30 days of the charge card billing date, the employee submitted a fully itemized travel expense voucher
- Expenditures appear to be charged to the correct fund, account and fiscal year

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- If the purchase is over bid thresholds, that the purchase was appropriately bid
- If the purchase is for items that should be included in an inventory or asset listing (including small and attractive), that the items were appropriately added to the entity's records. Consider tracing the item to ensure it is on site and for the government's use.

Other testing options might include:

- Review for altered credit card statements. Compare statements received directly by finance to what was submitted by the cardholder (in many frauds there are pages missing or alternations)
- Ensure all cardholders have a signed agreement on file, if required by policy
- Review for the splitting of transactions to bypass transactional limits pre-established on the card
- Review for credit limits that seem unreasonably high given level of actual activity
- Review for cards with no actual activity and inquire the reasons these are not cancelled
- Review for cards of terminated employees to determine if any charges were incurred past the employee's termination date, whether these charges are valid, and if the card was cancelled timely
- Review for transactions (such as for travel) that the employee might have charged to the credit card and also sought personal reimbursement

An optional template is available from the SAOStore for documenting credit/purchase card and purchase account transaction testing. Auditors should modify the testing criteria based on any risks they identified.

Auditors should consider sharing SAO's credit card best practices with entities that might benefit from them. They are located in the [resource database](#).

Guidance/Criteria:

LOCAL GOVT AUDIT CRITERIA

Key criteria that auditors will likely use when testing this area at local governments.

BARS [3.8.4](#) Purchase Cards

RCW [43.09.2855](#) Local Governments-Use of Credit Cards - describes requirements for local government use of credit cards

RCW [42.24.115](#) Municipal corporations and political subdivisions—Charge cards for officers' and employees' travel expenses - describes requirements for local government use of credit cards for travel expenses

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STATE AGENCY AUDIT CRITERIA

Key criteria that auditors will likely use when testing this area at state agencies.

RCW [39.26.090](#) Director's Duties and Responsibilities-Rules - RCW 39.26.090(2) gives the Director of the Department of General Administration rule making authority for use of credit cards for State Agencies, for details see the GA's published [Washington Purchasing Manual](#).

SAAM [10.10.45](#) Use of State Charge Card System, when required, to Purchase Travel - describes the use of charge cards for travel related expenses, minimum requirements for agency purchase card programs are covered in DES policy, agencies with central travel accounts and/or One Card programs should establish appropriate policies and controls

SAAM [40.30.40.a](#) Purchase Cards-Requirements - describes minimum agency controls

Record of Work Done.:

Risks Identified in Planning

There is a risk that employees were making unallowable purchases or purchases that did not have a District purposes. Audit response: We reviewed transactions for allowability and support.

There is a risk that the District does not have adequate controls over credit card use or that credit cards are being used to circumvent controls to purchase items that are not for a District use or for allowable purposes. Audit response: We specifically reviewed transactions from the prior business manager and the superintendent as they are in positions to override or circumvent normal controls.

The current business manager identified credit cards as an area at risk of noncompliance. Many credit card statements are missing and did not have controls over their use in prior years. Employees were able to purchase what they wanted on the District credit cards with no oversight. Audit Response: We reviewed transactions for allowability and support.

Audit Procedures

We obtained credit card transaction details and available credit card statements from Katherine Renton, Payroll, and Tricia Schock, Business Manager. We focused our review and testing on the prior business manager and prior superintendent credit cards as they were in positions to override or circumvent normal control procedures. We also noted a high volume of transactions on the business manager's card. We used the transaction details provided from the general ledger as our guide for testing as most of the credit card statements were not found on site at the District. Based on the transactions identified, we tried to identify transactions that were supported. If they were supported, we reviewed the documentation to determine if the transactions were for a legitimate District purpose. If the transactions were not supported, we used auditor judgement to determine if the transactions were reasonably expected for a school district and if they were allowable. See our testing at [\[BMO-](#)

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[Fudge] and [BMO - Dehuff]. In addition to testing for district purpose and allowability, we also identified many instances of interest payments and high levels of travel at the District. We included our testing of questionable transactions in our fraud investigation at [03Easton-FD21]. During our testing we identified interest payments of (\$3,413 MF and \$361 PD) **\$3,774** and travel payments for sports of (\$23,687 MF and \$644) **\$24,331**. Since there was limited supporting documentation, we are unable to tell if the travel for sports was paid for with fundraising money or from general fund dollars. We will recommend the District retain documentation for all transactions. See [V- Records Retention]. We were also unable to determine if all transactions were reviewed and approved by an independent person; we will recommend the District implement controls to ensure adequate oversight and accountability for all expenditures. See [V- Lack of Oversight and Accountability].)

G.6.PRG - Accounts Payable Disbursements

Procedure Step: Perform Testing of Disbursements

Prepared By: SHE, 1/25/2024

Reviewed By: RKM, 3/11/2024

Purpose/Conclusion:

Purpose:

To determine if accounts payable transaction are allowable, approved and adequately supported.

Conclusion:

We determined some accounts payable transactions were not consistently approved for payments, some reimbursements were approved by the employee requesting reimbursement, contracts were not paid in accordance with the terms included in the contract, transactions were unsupported and do not appear to have a District purpose. See our recommendations at [EX -Supplemental contracts], [V- Accounts Payable], [V- Records Retention], and [V- Lack of Oversight and Accountability]

Testing Strategy:

Judgementally select _____ transactions from CAATs work or warrant registers for the audit period and review for the following:

- Expenditures are legal and allowable

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- Fictitious vendors
- Payment for goods or services not receipted by entity
- Conflict of interest
- Bid Law violations
- Unallowable expenditures (e.g. federal/state grant requirements).
- Amounts paid match approved vouchers
- Review redeemed warrants of the transactions selected to ensure payee and amount agrees to endorsements and warrant register.
- Review petty cash and revolving fund expenditures for reasonableness.

If exceptions are noted, consider expanding testing where necessary.

Guidance/Criteria:

AUDIT CRITERIA

Key criteria that auditors will likely use when testing this area.

BARS 3.4.5 Issuance of Duplicate Instruments

Record of Work Done:

Risks Identified in Planning

There is a risk that the payments to Freida Ellison, Prior Business Manager, are not adequately supported or approved. *Follow Up: We will select payments to the prior business manager as part of our testing.*

There is a risk that purchases from Amazon are not being reviewed for allowability. *Follow Up: We will select payments to Amazon as part of our testing.*

There is a general risk of a lack of internal controls due to limited oversight at the District office. *Follow Up: We will be aware of the lack of controls throughout our audit.*

There is a risk that the District does not have adequate controls over general disbursements. This also increases the risk that the District is

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making purchases that are unsupported or for unallowable purposes. *Follow Up: We will be aware of the lack of controls throughout our audit.*

Patrick DeHuff's World Mark (timeshare) dues were being paid through the District's accounts payable. *Follow Up: We will select payments to WorldMark as part of our testing.*

Auditor Procedures

We reviewed accounts payable transactions for our audit period and selected individual expenditures for testing. We obtained supporting documentation from Katherine Renton, Accounts Payable, and compared the transactions to the supporting documents to ensure they were supported, approved (as needed), allowable and for a District purpose. See our testing at [Accounts Payable testing]. We identified that not all transactions were consistently approved for payments, some reimbursements were approved by the employee requesting reimbursement and a contract was not paid in accordance with the terms included in the contract. See our recommendations at [EX -Supplemental contracts] and [V- Accounts Payable].

We were made aware that the prior Business Manager would make payments without supporting documentation or professional judgment. Based on that information, we requested to see the master vendor list for the District. We scanned the list for high risk vendors. We carried our work for high risk vendors to our fraud investigation at [03Easton-FD21]. We performed testing over the WorldMark expenditures separately because they occurred over such a large period of time and were paid out through various methods. We identified payments through accounts payable, credit card payments and reimbursements to the prior superintendent. We performed this testing as part of our fraud investigation in TeamMate file [03Easton-FD21].

G.7.PRG - Scholarship funds

Procedure Step: Scholarship Funds

Prepared By: SHE, 11/15/2023

Reviewed By: RKM, 11/16/2023

Purpose/Conclusion:

Purpose:

To determine if scholarship applications are fairly evaluated and awards are paid out in the correct amount.

Conclusion:

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We determined applications are fairly evaluated; however, we identified an award that was over paid by \$750. See [EX- Scholarship].

Testing Strategy.

Guidance/Criteria.

Record of Work Done.

Risks Identified: While onsite, we were informed that the prior superintendent and prior business manager had made scholarship payments to their family members while they were employed by the District. These payments were identified as high risk payments as the prior superintendent and prior business manager were in a position to over-ride internal controls related to accounts payable. We separated the testing of these scholarship payments from other accounts payable transactions because the internal controls and payment methods varied from traditional accounts payable transactions.

Auditor Procedure:

The District offers two scholarships to graduating seniors during the year. There is a staff scholarship and the Anna Powell scholarship. Staff can contribute money from their paycheck into the staff scholarship throughout the year and if there is enough money \$1,000 awards are made. The Anna Powell Scholarship is awarded from a trust and \$1,000 awards are also made from that fund.

The process for awarding the scholarships is the same from each scholarship "foundation". A committee of three teachers is put together to evaluate the applicants. Any senior who is graduating and who is attending college is eligible to apply. Applications that are submitted by the deadline are all evaluated and considered for the awards. Since this is a small District, typically 2-4 seniors apply and often times, all applicants will be awarded the scholarship. We were made aware of a potential conflict of interest that took place during the 2017 and 2018 award cycles.

2017

In 2017 the scholarship was awarded to each of the Business Managers two daughters in the full amount of \$1,000 for a total of \$2,000.

2018

In 2018 the scholarship was awarded to the superintendents daughter in the full amount of \$1,000.

We spoke with Julie Miller, District Secretary, who is responsible for the scholarship program. She explained that during both of those years, the applicants were all treated the same and she specifically remembers the applicants in question. She remembered the awards and that the applications were evaluated in the same manner as all the rest. The District no longer has access to the 2017 applications, but Julie was able to

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provide us with the 2018 applications and showed us that the scholarship was awarded to both (2) applicants during the 2018 year.

Julie further explained to us that disbursements from the scholarship fund are made in two installments. \$500 is made during the first quarter/ semester of college, then if the student is still enrolled for the second term the District will disburse the second payment of \$500. We tested disbursements to the two recipients to ensure they were disbursed the correct amounts. See our testing at [\[Scholarship awards testing\]](#). The superintendent's daughter was over awarded \$750. See our recommendation at [\[EX- Scholarship\]](#).

ISS.4 - FI- Oversight/ reconciliations	
<i>Prepared By:</i> SHE, 7/31/2024 <i>Reviewed By:</i> CLT, 9/19/2024 <i>Type:</i> Accountability <i>Category:</i> Accounting/Financial Reporting <i>Reporting Level(s):</i> Finding <i>Impact</i> <i>Cost Savings:</i> <i>Questioned Costs:</i> \$0.00	<i>Issue</i> 2022-001 The District lacked sufficient oversight of its financial activities to ensure the safeguarding of public resources. Background The Board is responsible for fiscal oversight of the District. The Board and District management are also responsible for the integrity and retention of the original invoices, receipts and other documents necessary to demonstrate the validity of every transaction relating to the District's use and disposition of public resources. Description of Condition The District lacked adequate oversight and internal controls to safeguard public resources, which increased the risk of misappropriation. Furthermore, District management did not develop and implement policies and

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	<p>procedures to verify that transactions were supported, approved and allowable.</p> <p>We identified the following concerns during our audit:</p> <p><u>Insufficient Oversight of Operations</u></p> <p>The District must use Kittitas County as its treasurer, which includes processing payroll and accounts payable warrants. The County Treasurer issues a monthly statement summarizing the District's monthly receipt and payment activity. The District did not reconcile its general ledger to County Treasurer statements between the 2019-2020 and 2021-2022 school years, resulting in large discrepancies.</p> <p>Additionally, the District did not reconcile the payroll clearing account to the payroll accounting module between the 2019-2020 and 2021-2022 school years, and did not reconcile all petty cash amounts, as required by the <i>Accounting Manual for School Districts in the State of Washington</i>.</p> <p>The District's financial department did not pay the District's credit card bills timely. As a result, the District incurred significant interest and late fees on accounts, including \$3,774 in interest payments on two of six District credit cards.</p> <p><i>Superintendent Contract</i></p> <p>The Superintendent was not contracted to work extra days or receive compensation for extra workdays until his 2019-2021 contract. The Superintendent requested to cash out vacation leave he accrued for the additional days</p>
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	<p>worked in excess of those included in his base contract, from 2014 to July 1, 2019. Since this was not a benefit included in his contract, the Superintendent cashed out 800 hours of vacation leave in payments that were not allowable, totaling about \$60,329.</p> <p><i>Supplemental Contracts</i></p> <p>The District paid a classified employee for supervisory duties that it did not include in their base contract. The employee did not sign a supplemental contract, yet the District paid them \$12,548 above their base pay from fiscal year 2019 through fiscal year 2022. As a result, the District paid the employee for additional work without established pay terms or employment expectations.</p> <p><i>Retroactive Payments</i></p> <p>The District retroactively paid classified employees salary increases in fiscal years 2019 through 2022. State law (Washington State Constitution, Article II, Section 25) generally prohibits retroactive payments to employees for services they have already rendered. The retroactive payments were not subject to any collective bargaining agreement and therefore, these payments totaling \$8,578 violated state law and were not allowable.</p> <p><u>Management Override of Controls</u></p> <p>Employees were able to request reimbursement for District-related expenses they incurred using personal funds. The District does not have a consistent and independent review process for employee reimbursements. We identified employee reimbursements that the Superintendent filled out, signed and approved without independent review or approval. Additionally, we</p>
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	<p>identified reimbursements to other employees that the District paid without any indication of a review or approval.</p> <p><u>Records Retention</u></p> <p>The District did not retain records during the audit period to support all banking transactions, vendor payments and employee contracts.</p> <p><i>Cause of Condition</i></p> <p>The District did not have sufficient oversight, controls and policies over significant financial systems to ensure transactions were supported and for an allowable purpose.</p> <p><i>Effect of Condition</i></p> <p>Due to the District’s lack of adequate controls, appropriate policies and documentation, we cannot determine if:</p> <ul style="list-style-type: none">• All District payments during the audit period were legal and allowable• The District deposited all funds it collected, paid employees in accordance with their contracts or appropriately paid money it owed to vendors• The District appropriately paid all employees in accordance with their approved salary and/or contract
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	<ul style="list-style-type: none">Any potential loss or misappropriation of public funds occurred <p>In February 2023, we investigated a possible misappropriation of public funds as referenced in the Related Reports – Special Investigations section of this report.</p> <p><i>Recommendation</i></p> <p>We strongly recommend the Board implement appropriate oversight and ensure adequate controls over all financial activities to ensure the safeguarding of public resources. Additionally, the District should retain proper documentation to support all its financial activities as state law requires.</p> <p>Based on the results of our audit we specifically recommend the District:</p> <ul style="list-style-type: none">Establish a review process over significant financial systems to ensure that it reconciles activity in the general ledger and payroll subsidiary systems timely, and that they are accurate and agree to the County Treasurer activityProperly train staff to process payrollImplement procedures to ensure leave accruals and cash-outs comply with applicable employment contractsPrepare supplemental contracts to support additional duties, responsibilities or time, and the employees' authorized payImplement practices and procedures to ensure a thorough review of manual payroll calculations, including agreeing to employee contracts or other criteria to demonstrate they are appropriate under state law and District policiesIndependently review disbursements such as employee reimbursements and credit card activity, including those for the
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	<p>Superintendent, to verify that all transactions are for an allowable business purpose</p> <ul style="list-style-type: none">• Conduct a legal review to determine if any further actions, such as repayment, are advisable or required by law for the overpayments we noted <p><i>District's Response</i></p> <p><i>Easton School District concurs with the auditors' recommendations. The district has taken immediate action by examining current practices and policies regarding payroll and general ledger. Since July 2022, Easton School District has been strengthening internal controls and developing updated procedures and policies. Easton School District is committed to providing the necessary training to its employees to ensure compliance with state laws and regulations. Trust in our community is of the utmost importance to the District and its Board of Directors.</i></p> <p><i>The Superintendent, Business Manager, and Accounts Payable staff member involved in this Accountability Report are no longer employed by Easton School District, and their employment ended no later than June 2022. A new team has been hired.</i></p> <p><i>Since June of 2022, Easton School District fiscal services and oversight have been provided by contracted services with NCESD. In addition, for the last two years, our current Payroll/AP staff member has been enrolled in NCESD's yearlong Payroll Academy to ensure the accurate processing of the District's payroll records.</i></p> <p><i>With the hiring of a new Superintendent in July 2022, the District has implemented steps to enhance its procedures</i></p>
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	<p><i>and increase fiscal, payroll, and Board activity transparency, including:</i></p> <ul style="list-style-type: none">• <i>Annual School Board meeting agenda calendar including monthly fiscal, Accounts Payable, Human Resources, and operational updates.</i>• <i>Monthly Board meetings to include monthly Payroll Updates(in progress)</i>• <i>Implementation of an electronic Board Meeting program for public review and participation (Board Docs)</i>• <i>All supplemental staff contracts for extra duties are reviewed and approved by the Easton School Board</i>• <i>Multiple staff members review any (and all) purchases using district credit cards to ensure allowable expenses are met.</i>• <i>Superintendent's Work calendar is shared with the Board in July and then reviewed in June</i>• <i>Board materials from 1975 to the present have been digitized and available electronically</i>• <i>District applied for and received a Records Retention Grant from the Secretary of State's Office</i> <p><i>Auditor's Remarks</i></p> <p>We appreciate the District's commitment to resolving this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.</p>
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Applicable Laws and Regulations

Washington State Constitution – Article II section 25 – Extra Compensation Prohibited.

Attorney General Opinion 1951 No. 66 – Apr 12 1951 – Retroactive Pay Increase for Municipal Employees

RCW 28A.150.230 – District school directors’ responsibilities.

RCW 42.24.080 – Municipal corporations and political subdivisions – Claims against for contractual purposes – Auditing and payment – Forms – Authentication and certification.

RCW 42.56.100 – Protection of public records – Public access

RCW 40.14.070 – Destruction, disposition, donation of local government records – Preservation for historical interest – Local records committee, duties – Record retention schedules – Sealed records – Peace and corrections officer personnel records.

Accounting Manual for Public School Districts in Washington State

NOTES

See our level of reporting analysis at [\[LOR Summary\]](#).

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ISS.6 - V- Accounts Payable

Prepared By: SHE, 6/24/2024
Reviewed By: CLT, 9/19/2024
Type: Verbal Recommendation
Category: Accounts Payable Disbursements
Reporting Level(s):

Issue

Details included in finding at issue 4.

Impact

Cost Savings:

Questioned Costs:

NOTES

See our level of reporting analysis at [\[LOR Summary\]](#).

ISS.10 - EX- Scholarship

Prepared By: SHE, 3/12/2024
Reviewed By: CLT, 9/19/2024
Type: Accountability
Category: Other

Issue

The District does not have controls in place to ensure that scholarship awards are made in the correct amount; this resulted in a recipient being over paid by \$750.

We recommend the District implement controls over scholarship payments to ensure correct award amounts are paid out.

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<i>Reporting Level(s):</i>	Exit Item
<i>Impact</i>	
<i>Cost Savings:</i>	
<i>Questioned Costs:</i>	

NOTES

See our level of reporting analysis at [[LOR Summary](#)].

ISS.12 - V- Lack of Oversight and Accountability

<p><i>Prepared By:</i> SHE, 7/31/2024</p> <p><i>Reviewed By:</i> CLT, 9/19/2024</p> <p><i>Type:</i> Verbal Recommendation</p> <p><i>Category:</i> Other</p> <p><i>Reporting Level(s):</i></p> <p><i>Impact</i></p>	<p><i>Issue</i></p> <p>See details of exception included in issue 4.</p>
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<i>Cost Savings:</i>	
<i>Questioned Costs:</i>	
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See our level of reporting analysis at [LOR Summary].	